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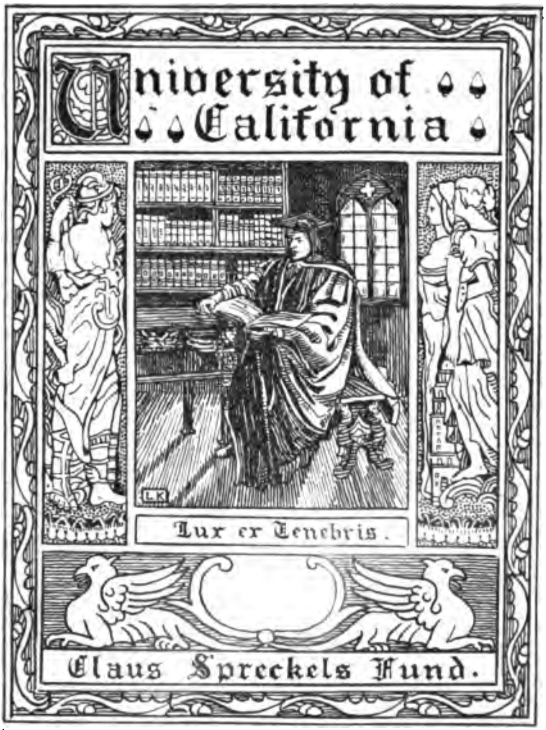

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PREFACE TO FIRST EDITION.

THE following work is founded upon a series of lectures delivered by the author before the Institute of Secretaries in the early part of 1897. In the course of that series the author was strictly limited as to the time to be occupied by each lecture, and in consequence it was imperative that many matters of importance should be omitted, and others dealt with only cursorily. It is hoped that these defects have now been removed, and that the present work will be found to reasonably meet the requirements of Company Secretaries, and others seeking information upon the subject of Bookkeeping in relation to joint-stock undertakings.

In dealing with so extensive a subject as Bookkeeping, however, in the limited space available in a volume of the dimensions of that now in the reader's hands, it becomes necessary either to leave unmentioned many points of considerable importance which would be particularly useful to Company Secretaries, or else to assume a certain amount of preliminary knowledge of Bookkeeping. A certain amount of preliminary knowledge has, therefore, perforce been assumed in the present work; but, taking it for granted that the assumption of some such knowledge is justified, it is still a very difficult matter to fix the precise amount, so as, upon the one hand, not to occupy time needlessly upon elementary matters with which the

reader is already well acquainted, and, on the other, not to commence the course so over the heads of some that it is impossible for them to derive that benefit from the present work which they, not unreasonably, look for.

Under these circumstances it has been decided, at the risk of appearing tedious to the better informed, to commence absolutely at the beginning, but to cover the earlier part of the ground very quickly. By this means it is hoped that even those who know very little of Bookkeeping may not be discouraged by reason of the work being too advanced; while, should these preliminary remarks not be exhaustive enough to enable the reader to obtain that grasp of the fundamental principles of Bookkeeping which is so essential for the proper comprehension of its later developments, it is suggested that he should (as a preliminary to the present work) study the first two parts of the author's "Bookkeeping for Accountant Students," which will give all the information required, and perhaps a little more. On the other hand, it is thought that even those who are already capable bookkeepers will not really be wasting their time if they bear with the author a short time while he deals briefly with the fundamental principles underlying every system of Bookkeeping by double entry.

LAWRENCE R. DICKSEE.

COPTHALL HOUSE, LONDON, E.C.
25th March 1897.

PREFACE TO THIRD EDITION.

THE necessity for publishing a third edition of "Bookkeeping for Company Secretaries" has afforded an opportunity for the careful revision of the general text. This opportunity has been taken advantage of ; but with the exception of a few purely verbal corrections, it has not been thought necessary to make any alteration in the original edition. In view, however, of the fact that this work is likely to be generally used by candidates for the examinations of the Chartered Institute of Secretaries, it has been thought that a reprint of the various papers on Bookkeeping and Accounts which have been set by that body from time to time will be found of interest, and (with the kind permission of the Council) these are now included in the form of a second Appendix.

It is not claimed that the present work is an exhaustive *résumé* of all the information that might usefully be acquired by a Company Secretary. To have planned the work upon that footing would necessarily have involved a repetition of much that the author has already stated elsewhere. It is thought, however, that all the more material questions on Bookkeeping that are likely to arise in connection with the exercise of a Company Secretary's duties would at all events

be found to have been noted; while reference has been made from time to time to the sources where more detailed information can, if necessary, be acquired.

The success with which the work has met in the past is a sufficient guarantee that this hope is not altogether ill-founded; but the author would gladly welcome any suggestions that may be made to him from time to time, all of which will receive careful attention when a further edition is in contemplation.

LAWRENCE R. DICKSEE.

COPTHALL HOUSE, LONDON, E.C.
19th November 1903.

BOOKKEEPING FOR COMPANY SECRETARIES.

CHAPTER I.

What Bookkeeping is.

BOOKKEEPING may be defined as the science of correctly recording in books transactions involving the transfer of money or money's worth.

In so recording these transactions it is necessary—

(1) That the record be so explicit that, at any subsequent time, the exact nature of the transaction may be readily perceived;

(2) That the transactions should be so classified that at any time the total result of such transactions, or of any particular series thereof, during any given period may be readily ascertained;

(3) That the amount of labour necessarily involved be reduced to a minimum.

The various points are in reality all vital and all equally important, and it is therefore very necessary that the reader should bear them constantly in mind, if he wishes to follow the why and the wherefore of a good system of Bookkeeping.

The Nature of Books Employed.

Having now ascertained to a certain extent the nature of the records it is necessary to make, the reader's attention may be directed to the things in which the records are made, viz., the Books.

It goes without saying that the same books are not always equally suitable for the record of all kinds of transactions, or, in other words, that different kinds of business each require a different set of books; in fact, it is frequently desirable that businesses of the same kind should have their accounts kept differently, in order to meet some slight variation involved by a different class of trade. But in all cases the books are kept for the same purpose—the record of transactions involving the transfer of money or money's worth—and, consequently, vary in matters of detail only, the ruling principle being the same in all.

Books, then, are divisible into two great classes:—

(1) Books of Account, or Financial Books.

(2) Memorandum, or Statistical Books.

Books of Account.

It is proposed to deal with Books of Account first.

The first book of account ever used was probably a mere record of transactions entered as they occurred, and, consequently, in chronological order; being, in fact, little more than a memorandum book. A very few moments' consideration will show that, as soon as these transactions became either very numerous or very varied in their nature, a mere chronological record would be all but useless, and some method of classification became absolutely necessary.

This being perceived, it became the custom to sort out the various transactions into their several classes, and to

re-write them in another book (the Ledger) under separate headings, keeping each class of transaction under its proper heading, and referring to such heading whenever any information was required upon that class of transaction.

It may be considered that Bookkeeping itself dates from this time, for books of account, properly so-called, hardly existed before this period; while all that has been done since has been to follow up, and improve upon, the lines thus indicated; and the complexity of modern Bookkeeping is due to the multiplicity of detail required by the growth of modern commerce rather than to any radical alteration of the principle of the original design.

The two books already named are, in fact, the only books of account in use even at the present time. The first, called the Journal, or daily register (so called because it contains a record of each day's transactions), in some form or other still retains all its ancient functions, and although in the course of centuries it has been found convenient to divide the book into sections, and call the various parts Sales Book or Day Book, Invoice Book or Purchase Book, &c., yet, in fact, they are merely so many Journals; and to this day in all Continental houses of business, and even in some English ones, all transactions are carried through some form of Journal, although subsidiary books are often used to record the fuller details.

The second book named is the Ledger, so called because in that book the entries of all transactions are *laid* or *stored up*, for future reference. Most businesses have also a Cash Book, but it will save the reader a great deal of confusion at a subsequent period if, at this early stage, he learns to regard the Cash Book as neither more nor less than an account in the Ledger, bound up separately for the sake of convenience.

The Ledger, as has already been said, contains a record in classified form of transactions involving the transfer of money or money's worth. Thus, if a trader sells John Smith goods to the value of, say, £20, there would be a page in his Ledger headed "John Smith," showing that he was his debtor for £20 on account of goods sold to him. When he paid him, say, £10 on account, that £10 *used to be*

JOHN SMITH.

		£ s d
1460 Jan. 1	Goods sold him	20 0 0
" 20	Cash paid by him	10 0 0
		£10 0 0

subtracted from the £20, and the difference showed the amount still owing by him. It was very soon found, however, that there were two weighty objections to this manner of proceeding: (1) The bookkeeper was always liable to *add*, instead of *subtracting*, and *vice versâ*, in which case the error would not be specially obvious; (2) without reading the whole account, it would not appear whether John Smith owed the money to the trader, or the trader to him. To meet this difficulty, each Ledger Account was divided into two:—Upon one side were placed the items for which he was a debtor, and upon the other side (the *contra* account) those items for which he was a creditor, the balance being readily ascertainable at any time by adding up the two sides and striking a balance.

Dr. JOHN SMITH. CONTRA. *Cr.*

		£ s d			£ s d
1500 Jan. 1	To Goods ..	20 0 0	1500 Jan. 20	By Cash ..	10 0 0

At first sight the reader may possibly have some little difficulty in seeing how, when Smith owes £20, he becomes

a creditor upon payment of £10; but in Bookkeeping, as in many other things, one must examine each transaction by itself as it arises; the time to set one off against another being after they have been placed side by side in the Ledger.

Now that the Ledger had been separated into two sides, it became necessary to distinguish in the Journal upon which side of the Ledger each transaction should appear, and thus two columns soon found their way into the Journal—one for sums to be placed on the Dr. (debtor) side of the Ledger Account, and one for the Cr. (creditor) side.

JOURNAL. *Dr.* *Cr.*

			Dr.	Cr.
			£ s d	£ s d

The Origin of Double Entry.

By this time it will be perceived that Bookkeeping had already become a matter of some little complexity, and doubtless at that remote period the errors made by the bookkeeper were a source of considerable annoyance and loss; it was therefore but natural that men should begin to see if they could not devise some means by which such errors should become self-evident. Then, doubtless, they asked themselves what was the exact nature of the transactions they recorded in their books, and arrived at the conclusion that the transactions they recorded were, as has already been said at the outset, *transfers.*

Now, what is a transfer? A transfer is a "conveyance of anything from one person or place to another." A transfer thus (and consequently the class of transactions with which Bookkeeping deals) involves a *two-fold act*—If A. pays John Smith £20, he, receiving the cash, is A.'s

debtor; but A.'s Cash Account, being so much the poorer, is (so far as that one transaction goes) A.'s creditor. Thus A. is enabled to record this one transaction on both sides of his Ledger; and if he records all his transactions on both sides of his Ledger, it will readily be seen that if at any time he adds up each side of his Ledger the total amount on the Dr. side must come to the same sum as the total of the Cr. side. Here at once he has a check; for, if there be a mistake, it is unlikely in the extreme that the two sides will agree.

At first sight, however, the advantage seems to be more than compensated by the extra labour—for certainly it nearly amounts to keeping the books twice over. But, notwithstanding this, no subsequent discovery has caused us to abandon the principle of double entry thus founded. Upwards of four hundred years have now elapsed since the first treatise on Double-Entry Bookkeeping was published, but, although many modifications and improvements have been made since then by means of which the amount of labour involved has been enormously reduced, the fundamental principle of double entry has remained unchanged. Indeed we may go further, and say that it is only in English-speaking countries that any serious attempt has been made to lessen the extra labour involved by double entry, and—bearing in mind "that the whole is equal to the sum of its parts"—attempt a form of classification in the Journal by which a vast number of small entries in the Ledger may be obviated.

Statistical Books.

These preliminary remarks upon books would not be complete without some reference, even at this early stage, to the second class of books which have been mentioned—namely, Memorandum or Statistical Books. Some such books as these are generally to be found in every enterprise of any importance, but particularly so in connection with

joint-stock companies, where the Register of Members, the Register of Transfers, and other similar books come under this category. The great distinction between Statistical and Finance Books is that the latter form an integral part of the system of double entry, while the former do not; their object being merely to provide further detail in connection with the records contained in the Financial Books.

As, however, the immediate object is merely to give the reader a general, although necessarily a superficial, idea of the scheme of Double-Entry Bookkeeping, it is unnecessary to go into further detail in this matter at the present moment, and we may, therefore, revert to a consideration of the Financial Books, and especially of the Ledger, which, it is hardly necessary to remind the reader, is *the* book; and try to convey a rough idea of the general principles upon which a Balance Sheet is prepared.

Balance Sheets.

A Balance Sheet is a statement showing upon one side the assets of the person or firm in question, and on the other side the liabilities. If the assets exceed the liabilities the surplus is the capital of the person or firm, and is entered on the liabilities' side so that the totals of both sides may agree. On the other hand, should the liabilities exceed the assets, the difference is called a deficiency, or capital overdrawn, and is entered on the assets' side. At first sight this may appear somewhat strange. "If I have a capital of £1,000," the reader says, "how can it appear on the liabilities' side; surely it is an asset?" True, but he must always remember to look upon the business as something quite apart from the person or persons to whom it belongs. The business has a surplus of £1,000 which it holds, virtually in trust, for its owner, therefore that owner is a creditor of the business for £1,000. It will thus appear that the business makes no distinction between its owner and any other creditor. Those

who have experience of Scottish mercantile law, which recognises the existence of a firm as something distinct from its individual partners, will doubtless grasp the situation more readily.

In the case of joint-stock companies, however, it is thought that few will have much difficulty in appreciating that—from the bookkeeper's point of view at least—paid-up capital is a liability of that company towards its shareholders. It is important, however, even at this early stage, to point out a very material difference between the accounts of a joint-stock company and the accounts of a trader or private firm. The former is necessarily of somewhat artificial construction, governed by numerous Acts of Parliament, and these provide that the amount of capital contributed by the proprietors shall be fixed at the outset, and remain fixed throughout the company's career, except in so far as it may be increased or reduced by the means duly appointed by the Legislature. These questions of the increase and reduction of a company's capital will have to be considered later; but, in the meantime, it is well to point out that, subject to these considerations, the capital of a company is unalterable, and that any profits which it may earn, or losses which it may incur, are not allowed to affect the amount of its capital. Leaving on one side those few companies which may be formed for scientific, artistic, or social purposes, not for the acquisition of gain, it may be stated in general terms that the primary object of every joint-stock company is to earn profits for distribution among proprietors; therefore, the aim of the accounts of every company should be to disclose what profits have been made that are available for this purpose, for it is very strictly laid down in the Companies Acts that such profits are only divisible, and that anything in the nature of a return of capital is not allowed. A company's accounts are therefore so stated as to show upon the face of the Balance Sheet the amount of undistributed profit which may be available; or, in the event of there being a loss, the aggregate amount of

that loss as it stands at the date of the accounts. These, however, are points which it is only necessary to deal with in general terms at the present time, as we shall have to go into them very much more fully later on, when we come to consider the question of dividends, &c.

Now, inasmuch as the Ledger contains, in a classified form, a record of *all* the transactions, it is obvious that, from the Ledger alone, both the assets and the liabilities of the business can be readily ascertained at any time. That is to say, the Ledger keeps a continuous record of the amount owing to the business, the amount owing by it, of the property belonging to it, and of the excess of the assets over the liabilities. If the latter at the end of any period is greater than at the commencement of that period, the difference will be the profit made during that period—assuming, of course, that no fresh capital has been brought in or withdrawn during the period. Similarly, if it has become reduced, there will have been a loss.

What are Revenue Items?

In taking out a Balance Sheet from the Ledger, however, it will be found that numerous accounts represent neither assets nor liabilities; but sources of expense, or of income. In this connection the following rules will be found most useful:—

(1) When an item is on the left-hand or Dr. side of the Ledger, the business has imparted a benefit to this particular account, and

(*a*) If the amount will eventually be received back, it is an asset.

(*b*) If the amount will not eventually be received back, it is a loss.

(2) When an item is on the right-hand or Cr. side of the Ledger, the business has — for the moment, at all events—received a benefit from this particular account, and

(*a*) If the amount will eventually have to be paid back, it is a liability.

(*b*) If the amount will not eventually have to be paid back, it is a gain.

This rule never fails; but, of course, the question as to whether an amount will eventually be received or not requires a knowledge of the facts of the particular case for its correct disposal; and, even then, may be a point of much difficulty—in fact, this is one of the difficulties of correctly reporting upon the affairs of any business — for because A. owes B. £100, it does not in the least follow that B. will ever receive this £100 from A. If he does eventually receive it, of course, it was one of B.'s assets; but if not, B. must look upon it as a loss.

Profit and Loss Accounts.

For theoretical purposes, however, one may readily suppose the distinction made. That having been done, the losses and gains are collected into one account, usually called the Profit and Loss Account. In this account the losses will appear on the Dr. side and the gains on the Cr. side, while the difference between the two sides will show the total gain or loss, as the case may be.

As every source of gain or loss has been included in this account, the total gain made during the period under review (as shown by this account, or the total loss, as the case may be) will agree with the corresponding figures upon the Balance Sheet, and if there is no error in the books, it must so agree, and here again we get the check of

the double entry. It is here also that the especial value of the double entry shows itself, for a very few moments' consideration will show that the question: "How have we made our profit?" is in reality almost more important than the question: "What profit have we made?" As, however, the point involved here belongs to Accountancy rather than Bookkeeping, it will not be dealt with further at the present time.

CHAPTER II.

Minutes relating to Accounts.

EVEN at the present stage it is well to draw the reader s attention to one or two points which are, perhaps, of more practical importance than anything which has up to the present been considered, and which may usefully be mentioned at this stage. The first point is the extreme importance which attaches not only to the correct keeping of accounts in general, but also with regard to that part of a company secretary's duties which deals with the minutes, in so far as they affect the accounts of the company. In general terms it may be stated that the following points should be dealt with by a resolution of the directors at their first meeting after the registration of a company:—

(1) The fixing of a quorum.

(2) Nomination of the company's bankers.

(3) The method in which cheques and bills are to be endorsed and signed on behalf of the company.

(4) The appointment of auditors.

(5) The appointment of other officers, and the salaries to be allowed to each.

(6) The method to be adopted in respect of moneys received at the company's office, in respect of which a resolution should always be passed that the amount be banked forthwith.

(7) The circumstances under which the seal of the company shall be affixed to any document.

All these, of course, are general matters, but the like care should be applied to a complete record being kept of any

resolution of the board with regard to any particular matter affecting the accounts of the company; and it is the more important that the secretary should be precise upon these points, inasmuch as in many cases directors are apt to look upon them as questions of detail with which they personally are not concerned. In particular it is of the greatest importance that all minutes relating to allotments, &c., should be very carefully recorded, but this is a question which will be dealt with more fully at a later stage.

Fixed and Floating Assets.

Another point which may profitably be considered here is the distinction between "fixed" and "floating" assets. In this connection it may be stated, in general terms, that those assets which a company acquires for the purpose of being fully equipped to carry out the objects set forth in its memorandum of association are "fixed" assets, whereas those which it acquires for the purposes of resale in the course of carrying out the objects for which it was registered are "floating" assets. It will thus be seen that whether or not a given asset is a fixed or a floating asset will vary very much according to the nature of the business transacted: thus, with an ordinary manufacturing business, or with a mining business, the machinery necessary for the purpose of carrying on the ordinary processes is in the nature of a fixed asset; but in the case of an engineering company, whose business it is to manufacture such machines, any that may remain in stock are stock-in-trade, which is a floating asset. Land and buildings with the vast majority of companies are fixed assets, but in the case of a land company they are a floating asset. Ordinarily speaking, investments in other companies, or Government stocks, &c., are floating assets, but in the case of a company whose business it is to invest its capital in such securities they become fixed assets. This, perhaps, seems a slight contradiction of the definition given above, as it cannot be said to be a necessary part of an equipment of an investment company that it should invest

its capital—rather is it pursuing the ordinary objects of its formation when it does so. The only explanation that can be offered for the discrepancy is that it has been held in the Courts that in the case of investment companies the investments *are* fixed assets, and no doubt it has arrived at this decision after taking into account the fact that the company's memorandum of association described the investment of its capital in such securities as one of the "objects" of the company; the intention being that they should be held permanently and are not acquired for purpose of re-sale.

The Double Account System.

In a few classes of companies, in which the form of accounts is regulated by Act of Parliament, it is specially provided that a separate Balance Sheet shall be furnished, upon one side of which are to be fixed assets, and upon the other the share and loan capital of the company, the difference between them only being carried forward into the General Balance Sheet, which deals with the floating assets and liabilities. This modification, although perhaps a little confusing at first, is really a matter of detail upon which there is no occasion to spend much time at present; but it is well to point out, even at this early stage, that whenever the "Double Account System" (as this system is called) is adopted it will be found that the fixed assets are invariably stated in the accounts at the actual amounts which they have cost, without any deduction being made for depreciation or fluctuation of value. How, if at all, these points are dealt with in the accounts of companies of this description it will, however, be better to consider at a later stage, when discussing the question of depreciation generally.

Distinction between Capital and Revenue.

Coming now to the question of the fundamental distinction between Capital and Revenue, it has been pointed out that, in taking out a Balance Sheet and Trading and

Profit and Loss Accounts from a Trial Balance which had been prepared from the Ledgers, it will be found that some accounts represent assets or liabilities, and others, sources of expense or income. It is perhaps expedient, however, to now look at this from another point of view. Every entry which is to be found on the debit side of a Ledger account implies that the owners of the business have expended that amount upon the person or account indicated; while, on the other hand, every entry to be found on the credit side of the Ledger implies that the owners of the business have received from the person or account indicated a benefit to the extent stated. Everything which can find an entry in books of account entails the receipt or the imparting of a benefit, and what has to be considered later on is, what is the effect or the consequence which will result from that receipt or imparting of that benefit; or, on the other hand, what return can be ultimately expected from it?

With regard to benefits imparted, if an equivalent amount will eventually be received they may be regarded as assets, but if an equivalent amount will not be eventually received, they must be treated as a loss. In many cases, of course, the debit balance standing upon a Ledger account will consist partly of the one and partly of the other, and it then becomes necessary to discriminate between the two. That expenditure which, it is anticipated, will eventually be received (either in meal or malt) is in the nature of capital expenditure; while that which it is expected will not be received eventually is in the nature of revenue expenditure.

The same remarks apply with regard to the credit side of the Ledger or the credit balances therein; these are all *primâ facie* in the nature of benefits received. If there will not eventually have to be a corresponding amount paid in respect of these benefits, they are profits, or

revenue, or income. If, on the other hand, they are benefits received which are of a temporary nature, and which eventually will have to be met by payment of an equivalent amount, they are in the nature of liabilities or capital receipts. Those amounts which are capital receipts or payments go to the Balance Sheet; those amounts which are revenue receipts or payments go to the Profit and Loss Account, or Revenue Account, as it is sometimes called.

In this connection, however, it is well to guard against any misconception as to what is meant by "receipts" and "payments." Ordinarily speaking, the term is only used when cash actually passes; but it is not used here in this restrictive sense, but with regard to *benefits*, whether they take the form of cash or anything else. Another limitation which it is necessary to add in this connection is with regard to those companies that keep their accounts upon what is called the Double Account System. It has just been mentioned that all debit balances which eventually will be received are capital expenditure, and all credit balances which eventually will have to be charged are capital receipts. The terms "capital expenditure" and "capital receipts" in this connection are used for want of a better name; but it is hoped that the reader will not confuse them with the distinction between the Capital Account and the General Balance Sheet of a "Double Account" company. Everything that occurs in both these is in the nature of a capital receipt or a capital expense, and the distinction in the Double Account System is not between capital and revenue (for that distinction has to be observed in *every* set of accounts), but between fixed and floating expenditure, and fixed and floating receipts. That is to say, it is merely a subdivision which, for present purposes, may be disregarded. If the Capital Account and the General Balance Sheet of an ordinary double account undertaking were amalgamated into one Balance Sheet,

they would be neither more nor less than an ordinary (single account) Balance Sheet prepared in the usual way.

It is hoped that by this time the reader will have begun to appreciate the general distinction between Capital and Revenue. The transactions which are continually going on in a company, or any other undertaking, are of two classes, or a combination of those two. The one class is a mere *transfer* of assets from one person to another, carrying with it a corresponding liability for the person who has received the asset to repay its equivalent to the first person. This class of transaction affects only the Balance Sheet, and in no way the Profit and Loss Account. It is what may be called a "capital" transaction. On the other hand, there are several classes of transactions which involve the payment of a certain sum from one person to another which will not eventually have to be repaid. These last are "revenue" items; that is to say, they affect the Profit and Loss Account alone. Many transactions, of course, partly affect the Balance Sheet and partly affect the Profit and Loss Account.

No doubt the reader is sufficiently acquainted with the general theory of double entry for it to be unnecessary to enlarge very much upon this point, but for the sake of clearness it is well to give one example. It is this—

Supposing in the Balance Sheet of a company, as it stands at present, the stock-in-trade is stated as being £500: then, supposing the company sells £100 of this stock for £120, there is, of course, a debit to the purchaser to that amount. In practice, £120 is also credited to the Sales Account (or the Stock Account or Goods Account, as the case may be); in each case the general principle being the same, that eventually it comes to the credit of the Trading Account. But what, strictly speaking, takes place is this, that the actual Stock Account has to be credited with £100 in respect of assets

which have been parted with (which is a capital item), while the £20 is a benefit received—from a Bookkeeping point of view without any corresponding consideration—which will not have to be again returned, and is therefore a revenue item. Numerous other examples of composite transactions, involving both capital and revenue, will doubtless readily occur to the reader.

What is really of more practical importance in connection with this distinction between capital and revenue is with regard to more unusual items, such as whether a certain expenditure in improvements may be taken as being a capital item, or whether or not a part of it ought to be written off at once as revenue. Here, again, the same principle applies. Traders are entitled to treat as capital expenditure anything which directly increases the value of their assets; but anything which, after they have spent it, does not really place them in a better position than that which was shown by the books as they previously appeared, must be treated as a revenue item. That is to say, supposing they have a building worth, say, £1,000, and afterwards spend money in the improvement of that building which comes to £200; then if the building, as it subsequently stands, is really worth £1,200 to them they may treat the full amount as capital expenditure; but if, on the other hand, the building is only worth £1,100 to them, the mere fact that its value has been increased at least £200 by the expenditure of that amount does not, in itself, justify them in debiting the building account for this £200; or, at all events, not unless at the same time they write off £100 in respect of the excess of the original amount at which the value stood over the actual value at that time.

Form of Accounts.

The object of all Balance Sheets is to show the real financial position of a company as at the date of that Balance Sheet, while the object of all Trading, Profit and

Loss, or Revenue Accounts is to show the result of its transactions during the period covered, in such a manner as may be most useful to those who are concerned in its finances. The consequence is that Balance Sheets do not (or at least should not) vary very much in their essential form, although they may vary in details; but, on the other hand, the Revenue and other similar accounts will vary very materially, according to the nature of the transactions which have occurred. Shortly speaking, undertakings may be divided into three classes :—

(1) Manufacturing undertakings;

(2) Trading undertakings;

(3) Non-trading undertakings;

by which latter are meant those undertakings which are not engaged in a manufacture or a trade.

Manufacturers' Accounts.

In manufacturing undertakings it is usual to group the various revenue items in various sections, on account of the great value of such grouping to those persons who are concerned in the management of the undertaking. The first section, which is usually called the Manufacturing or Trading Account, contains on the one side those items which have contributed to the cost of manufacturing the goods in question, and on the other side the gross proceeds which have been realised on such manufacture; these figures being, of course, modified by any difference in the stock on hand at the start and the close of the period. The next section, which is generally called the Profit and Loss Account, brings down upon the credit side the gross profit upon the actual manufacture, and details upon the debit side the cost of distribution, and various financial expenses in connection therewith. Any further sources of income appear to the credit of this account, and the result is the actual net profit which may have been earned.

In the case of a private firm of manufacturers this profit is carried direct to the Capital Accounts of the various proprietors in the proportions which have been agreed upon between them; but, in the case of a company, the profit cannot be allocated until a general meeting has been held and the shareholders have decided what is to be done with it. The balance is therefore carried forward, or in practice transferred to another account, which is usually called the "Profit and Loss Appropriation Account," or the "Net Revenue Account," or some such similar name. It stays upon this account until the shareholders have decided what dividend is to be declared, and what amount is to be carried to the reserve, when the necessary entries are made, and any balance which is left upon the account to be carried forward to next year is actually left upon this account in the Ledger, so as to form a starting balance to which the next year's profits are added in due course. The form of these accounts and the mode of making the necessary entries for the payment of dividends, &c., will be dealt with at a later stage.

Traders' Accounts.

The case of a trading company is different only in degree from that of a manufacturing company. Here, also, the Revenue Account is divided into two main sections; the first being mainly directed to showing the actual cost of the goods which have been sold, as against the gross amount which has been received for those goods. The difference, which here again is called the "gross profit," is carried down, and the establishment and financial expenses charged against it, the result being a net profit, which is dealt with as before.

Non-Traders' Accounts.

With regard to non-trading concerns, there is usually no occasion for this division of the Revenue Account into two sections. One account is amply sufficient for all practical purposes in the vast majority of cases, upon the credit side

of which will appear the items of income, or profit earned, and upon the debit all the items of expenditure, or loss incurred. These, of course, will, under ordinary circumstances, be grouped under convenient headings for the sake of comparison. The net profit will be dealt with in exactly the same way as before, the only fundamental distinction being that in the case of trading or manufacturing companies there are virtually three sections to the Revenue Account—viz., Trading Account, Profit and Loss Account, and Net Revenue Account; while in the case of non-trading companies there are only the two latter sections. But all these are matters of detail, it being really quite immaterial (so far as the fundamental principles of Bookkeeping are concerned) how many sections there may be in the account; as a whole it is a Revenue Account and includes all revenue items, whether of income or expenditure, so that the result shows a net profit or a loss, as the case may be.

CHAPTER III.

Adjustment Accounts.

THE next point claiming the careful attention of the reader is that of Adjustment Accounts, which are introduced into the various Ledgers of a system of Bookkeeping for the sake of making each Ledger self-balancing.

It is unnecessary to enlarge upon the advantage of being able to locate a clerical error in the balancing of books in the case of a system which involves the use of a considerable number of separate Ledgers. Most readers will have had some experience of such extended systems of Bookkeeping, and have realised the importance of this for themselves.

The details in connection with Adjustment Accounts vary under different circumstances, but the general principle is that each separate Ledger should be so arranged as to possess within itself all the necessary materials for a complete Trial Balance. That is to say, each Departmental Ledger should contain a "General Ledger Adjustment Account," while the General Ledger should contain an Adjustment Account for each of the Departmental Ledgers. To the Adjustment Accounts in the various Departmental Ledgers are posted contra entries for every single entry that occurs elsewhere in that particular Ledger; but, of course, these contra postings are not made in detail, but in *totals*, as otherwise an enormous amount of labour would be involved. In the same maner the various Adjustment Accounts which occur in the General Ledger each contain the contra entries of such other entries as are

entered in the General Ledger, and which—but for these Adjustment Accounts—would not have any contra entry at all in that particular Ledger.

Thus the total of the sales is posted to the credit of Sales Account in the General Ledger; the corresponding debit of this entry would be the debit to the customers in the Sold Ledger. When "self-balancing" Ledgers are used, however, the practice is as follows:—The various items are still debited to the customer in the Sold Ledger, and the total sales posted to the Sales Account in the General Ledger. In addition, however, the double entry of the Sold Ledger is completed by the monthly total of the sales being posted to the credit of the General Ledger Adjustment Account in the Sold Ledger; while the double entry of the General Ledger is completed by the monthly total of the sales, in addition to being posted to the credit of the Sales Account, being also posted to the debit of the Sold Ledger Adjustment Account in the General Ledger. All other transactions are treated in a similar manner. Where there is a considerable number of Sold Ledgers, a separate Adjustment Account is usually kept for each.

From what has been said it will be seen that the entries which occur in the General Ledger Adjustment Account in the Sold Ledger will be identical with the entries which occur in the Sold Ledger Adjustment Account in the General Ledger; and that therefore the balance of these two Adjustment Accounts will always be the same if the books are correct. But the balance will fall upon different sides—namely, upon the credit side of the account in the Sold Ledger, and upon the debit side of the account in the General Ledger. If these two balances agree one may feel reasonably satisfied that the postings are correct, provided each Ledger separately balances; but in the event of their not agreeing it ought to be a comparatively simple matter to

trace the difference, because not only should the *balance* of the two accounts agree, but each separate item should be the same.

To make this clear the following example of these Adjustment Accounts is appended :—

Dr. GENERAL LEDGER (ADJUSTMENT) ACCOUNT. *Cr.*

1896		£ s d	1896		£ s d
Oct. 31	To Cash ..	700 0 0	Oct. 1	By Balance ..	1,500 0 0
	" Discount..	20 0 0	" 31	" Sales ..	1,200 0 0
	" Returns ..	40 0 0	Nov. 30	" do. ..	900 0 0
Nov. 30	" Cash ..	800 0 0	Dec. 31	" do. ..	700 0 0
	" Discount..	25 0 0			
	" Returns ..	20 0 0			
Dec. 31	" Cash ..	600 0 0			
	" Discount..	15 0 0			
	" Returns ..	30 0 0			
	" Bills Receivable	750 0 0			
	" Bad Debts	50 0 0			
	" Balance down ..	1,250 0 0			
	£	4,300 0 0		£	4,300 0 0
			1897 Jan. 1	By Balance down ..	1,250 0 0

Dr. SOLD LEDGER (ADJUSTMENT) ACCOUNT. *Cr.*

1896		£ s d	1896		£ s d
Oct. 1	To Balance ..	1,500 0 0	Oct. 31	By Cash ..	700 0 0
" 31	" Sales ..	1,200 0 0		" Discounts	20 0 0
Nov. 30	" do. ..	900 0 0		" Returns ..	40 0 0
Dec. 31	" do. ..	700 0 0	Nov. 30	" Cash ..	800 0 0
				" Discounts	25 0 0
				" Returns ..	20 0 0
			Dec. 31	" Cash ..	600 0 0
				" Discounts	15 0 0
				" Returns ..	30 0 0
				" Bills Receivable	750 0 0
				" Bad Debts	50 0 0
				" Balance down ..	1,250 0 0
	£	4,300 0 0		£	4,300 0 0
1897 Jan. 1	To Balance down ..	1,250 0 0			

General Principle of Adjustment Accounts.

Before leaving this question of Adjustment Accounts as a means of balancing Ledgers separately, it is well to call attention to the following points which, no doubt, will help to clear up any difficulties which may be experienced in understanding the application of the general principle.

The mere fact that one Ledger is divided into two or more books does not *ipso facto* alter its nature. The Ledger, as a whole, still records the double effect of each transaction. At any time the sum of its debits will therefore always equal the sum of its credits. Consequently, a Trial Balance of a set of Ledgers can always be taken out by abstracting every balance, and the total of the debit balances will always equal the total of the credit balances if the postings are correct. There is thus no difficulty in testing the accuracy of a set of Ledgers, provided all the Ledger balances are extracted. On the other hand, when there is more than one Ledger—or, at all events, when there are more than two or three Ledgers—it will very soon be found that the number of balances is so large that, when the Trial Balance does not agree, it is a very difficult matter to localise the error. Hence it is very desirable that there should be some means of verifying the accuracy of each Ledger separately, and it is for this purpose that the Adjustment Accounts are introduced. Incidentally it may be mentioned, however, that they are, in practice, particularly valuable, because, by their means, Trade Ledgers (which usually contain the heaviest amount of posting) may be separately balanced, not only when a general balance is being struck, but also from time to time throughout the year. In practice it is usual for them to be balanced at least once a month, and without Adjustment Accounts this could not be done without balancing all the books monthly.

Practical Working of Adjustment Accounts.

With regard to the practical working of the Adjustment Accounts, it is necessary that those subsidiary books from which the various Ledgers are posted should either be in separate sets (one set for each Ledger), or else they should be of the columnar type, a separate column being devoted to the postings which have to go into each separate Ledger. In practice by far the most convenient way is to have separate Day Books for each Ledger; but with regard to the Cash Book, it is sometimes best to have a columnar one, while in other cases, separate subsidiary Cash Books are more convenient. Transfers from one Ledger to another may be conveniently passed through a Transfer Journal; and, for all practical purposes, it will be quite sufficient if the contents of this Transfer Journal are analysed at the end of each month, and posted to the various Adjustment Accounts.

The chief difference in the system of Bookkeeping, where Adjustment Accounts are used, will be with regard to the General Ledger. Ordinarily speaking, the General Ledger is posted up from the totals of the various Day Books and the General Cash Book, and in the case of most trading or manufacturing undertakings the number of Journal entries will be very few. It is not really necessary that the number should be increased because the Adjustment Accounts are used, as the necessary postings of Day Book totals can still just as easily be made from the Day Books direct as through the Journal; but as, in employing self-balancing Ledgers, two entries have now to be made in the General Ledger itself, it is, perhaps, desirable that Journal entries should be made to enable this to be done. The system of checking the Journal totals against the Ledger totals can then be applied with little or no additional labour.

CHAPTER IV.

Accounts of Branches.

The next point to be considered is the means of control which a good system of Bookkeeping will enable traders and others to exercise upon the transactions occurring at the branches of a business.

It is here, perhaps, even more than for the purpose of balancing the various Ledgers separately, that the principle of the Adjustment Account is most valuable. As has already been pointed out, in connection with the balancing of Ledgers separately, it was a matter of detail as to whether or not the accounts of an undertaking were kept in one or more Ledgers. The same remark applies with regard to the number of branches at which the transactions are carried on. It is a matter of detail how many places of business an undertaking has. Its transactions as a whole are recorded in the books as a whole, and it is quite immaterial whether some of the books are kept, and some of the transactions take place, at a distant part rather than at the headquarters of the business itself. The great point, however, is that those at the head office naturally want to know what is going on at the branches from time to time, and they want a system of accounts devised which will enable them not merely to check the branches' accounts, but also to weave them into the accounts which are kept at the head office.

System of Control.

This is done by merely treating the Ledgers of each separate branch in exactly the same way as a Departmental Ledger would be treated; that is to say, in the General Ledger at the Head office there is an Adjustment Account

called "Branch Account," to which all transactions passing between the head office and that particular branch are posted in the head office books. In the branch books there is kept a similar Adjustment Account called the "Head Office Account," to which the branch bookkeeper posts all the transactions occurring between the head office and the branch. The result, of course, is that, if both these Adjustment Accounts are correct, they will invariably show the same balance, but upon different sides. When balancing time comes, therefore, if the branch remits a Trial Balance of its Ledgers, that Trial Balance can be woven into the one extracted at the head office by being merely used as an explanation of the balance appearing in the Branch Account in the head office books. Usually, and indeed almost invariably, this account will appear as a debit balance in the head office books, representing the amount of capital invested in the branch; but this, of course, is modified from time to time, when the branch Trial Balance comes in, by transfers to and from Revenue Accounts. For the sake of making this quite clear an example is appended, showing *pro formâ* Trial Balance (in very simple form) of a head office and branch, and an aggregate Trial Balance showing how these two are amalgamated.

BRANCH OFFICE TRIAL BALANCE, 31st December 1896.

	£ s d	£ s d
Sundry Debtors (Sold Ledger Account) ..	1,250 0 0	
Sundry Creditors (Bought Ledger Account)..	..	200 0 0
Stock (on 31st December 1896)	2,500 0 0	
Head Office Account	..	4,350 0 0
Cash	500 0 0	
Fixtures, &c...	1,000 0 0	
Trading Account (gross profit)	..	1,200 0 0
General Expenses	500 0 0	
£	5,750 0 0	£5,750 0 0

HEAD OFFICE TRIAL BALANCE, 31st December 1896.

	£ s d	£ s d
Share Capital Account	..	15,000 0 0
Buildings Account	2,500 0 0	
Fixtures, &c...	1,250 0 0	
Branch Office Account	4,350 0 0	
Stock	5,000 0 0	
Cash	2,000 0 0	
Gross Profit	..	3,000 0 0
General Expenses	1,000 0 0	
Sundry Debtors	3,900 0 0	
Sundry Creditors	..	2,000 0 0
£	20,000 0 0	£20,000 0 0

AGGREGATE TRIAL BALANCE, 31st December 1896.

	£ s d	£ s d
Share Capital Account	..	15,000 0 0
Buildings Account	2,500 0 0	
Fixtures, &c., Account	2,250 0 0	
Stock Account	7,500 0 0	
Cash	2,500 0 0	
Trading Account (gross profit)	..	4,200 0 0
General Expenses	1,500 0 0	
Sundry Debtors	5,150 0 0	
Sundry Creditors	..	2,200 0 0
£	21,400 0 0	£21,400 0 0

The following accounts are compiled from the Trial Balances shown above. They are given in tabular form, as being the more unusual; but the reader will readily be able to grasp how they would appear, were the Profit and Loss Accounts and Balance Sheets each shown separately.

Dr. PROFIT AND LOSS ACCOUNT for the Year ended 31st December 1896. *Cr.*

	Head Office	Branch	Total		Head Office	Branch	Total
	£ s d	£ s d	£ s d		£ s d	£ s d	£ s d
To General Expenses	1,000 0 0	500 0 0	1,500 0 0	By Gross Profit (as per Trading Account)	3,000 0 0	1,200 0 0	4,200 0 0
" Balance (being net Profit for the year)	2,000 0 0	700 0 0	2,700 0 0				
	£3,000 0 0	£1,200 0 0	£4,200 0 0		£3,000 0 0	£1,200 0 0	£4,200 0 0

BALANCE SHEET, 31st December 1896.

Liabilities	Head Office	Branch	Total	Assets	Head Office	Branch	Total
	£ s d	£ s d	£ s d		£ s d	£ s d	£ s d
Capital Account ..	15,000 0 0	..	15,000 0 0	*Branch Office Account	4,350 0 0	..	..
*Head Office Account..	..	4,350 0 0	..	Buildings	2,500 0 0	..	2,500 0 0
Sundry Creditors ..	2,000 0 0	200 0 0	2,200 0 0	Fixtures, &c.	1,250 0 0	1,000 0 0	2,250 0 0
Profit & Loss Account	2,000 0 0	700 0 0	2,700 0 0	Stock	5,000 0 0	2,500 0 0	7,500 0 0
				Sundry Debtors ..	3,900 0 0	1,250 0 0	5,150 0 0
				Cash	2,000 0 0	500 0 0	2,500 0 0
	£19,000 0 0	£5,250 0 0	£19,900 0 0		£19,000 0 0	£5,250 0 0	£19,900 0 0

* If only the amalgamated Balance Sheet be shown, these lines would be omitted.

Foreign Branches.

There is a further point in connection with the Trial Balances of branch accounts which it would be well to consider now. As a matter of fact, it not infrequently happens that the branch is in a foreign country, and that, therefore, its transactions take place for the most part in the foreign currency. Then comes in the question as to how these transactions in foreign currency are to be treated in the head office books; for, of course, the Trial Balance of the branch office will naturally be in the currency in which the transactions have occurred; were it otherwise, an enormous amount of labour would be involved.

In order to exemplify this, let it be supposed that the branch accounts, of which a Trial Balance is shown on page 28, are in respect of transactions which took place in France. This Trial Balance would appear in the French currency as follows:—

FOREIGN BRANCH TRIAL BALANCE, 31st December 1896.

		Francs.	Francs.	£ s d	£ s d
a	Sundry Debtors	31,598	..	1,250 0 0	
a	Sundry Creditors	..	5,050	..	200 0 0
a	Stock	36,196	..	2,500 0 0	
b	Head Office	..	110,500	..	4,350 0 0
a	Cash	12,625	..	500 0 0	
c	Fixtures	25,400	..	1,000 0 0	
d	Trading Account	..	30,360	..	1,200 0 0
d	General Expenses	13,091	..	517 8 2	
	Exchange Account	..	..	..	17 8 2
		145,910	145,910	£5,767 8 2	£5,767 8 2

a. Ex. fr. 25.25=£1 (rate on 31st December 1896).

b. At actual rates of exchange at dates of remittances

c. Ex. fr. 25.40=£1 (rate on date when purchased).

d. Ex. fr. 25.30=£1 (average rate during period).

The only account which it is necessary should be kept in sterling in the Branch Ledger is the "Head Office Account." This account records the transactions between the head office and the branch. It is convenient, however, that the account should really be kept in two sections—that is to say, that the Head Office Account should be dealt with only when the books are balanced, and the current transactions should be posted to a Head Office Remittance Account. The advantage of this slight modification of this system is that it becomes very much easier to balance the branch accounts with the head office books, when the branch Trial Balance is received at the head office.

Treatment of Foreign Currencies.

All that remains to be done after these two have been balanced is to convert the Trial Balance of the branch into sterling, which is most conveniently done by extending the amounts in further columns, added to the existing Trial Balance as shown above. There is, however, a general question of principle, which it is important to recognise before commencing these operations. The conversion of the Remittance Account and the Head Office Account has already been done, and these items must be extended at the actual figures appearing in the branch books, which also agree with the figures appearing in the head office books. The remainder of the items in this Trial Balance are of three classes. They are:—

1. Fixed assets and liabilities.
2. Floating assets and liabilities; and
3. Revenue items.

The fixed assets and liabilities may safely be taken at the actual figure that they cost in English money—that is to say, they will be extended at the rate of exchange of the day when they were incurred (or, if the expenditure was incurred at frequent intervals spread over a period, then at

the average rate ruling during that time). The floating assets and liabilities must, however, be extended at the rate of exchange ruling at the date of balancing, as this, of course, is the sterling value of these items on that day, and it is a matter of principle that they should be valued upon the basis of a going concern. The revenue items, on the other hand, are the totals of transactions occurring over the whole of the period, and are not figures in respect of any one day. It, therefore, would not do to convert them at the rate of exchange ruling at the date of the accounts. This would not afford any proper idea of the effect of the transactions. A far better method is to adopt the average rate of exchange ruling during that period, but many undertakings prefer to adopt what they regard as a normal rate of exchange. This latter has the advantage of continuity between the various periodical accounts, but it is less theoretically correct than the average rate. It is hardly necessary to point out that, if more than one rate of exchange is used for the conversion of the various items in the foreign currency, the result will be that the sterling columns of the Trial Balance will not agree, although the currency columns do agree. The difference must be inserted as being a "Difference in Exchange"; it may be either a loss or a profit, according to the circumstances of the case.

It is now possible to amalgamate the various items of the Branch Trial Balance with the Head Office Trial Balance, and from the two there can be struck a Balance Sheet and Profit and Loss Account for the whole undertaking. In many cases it is desirable that this should be supplemented by Balance Sheets and Profit and Loss Accounts of the various branches and of the head office separately; but this, of course, is a matter which can at all times be easily performed by following the process already described.

Accounts of Branches kept at Head Office.

It may be added that in many cases the transactions which occur at branches are not sufficiently numerous or complex

for it to be necessary that any really complete system of accounts should be kept out there, and in some cases—as, for instance, in a mine—it is desirable that the accounts which have to be kept there should be framed upon such lines that they can be kept by one who is not a skilled bookkeeper. This, however, involves the remittance of periodical "returns" to the head office. These "returns" are, ordinarily speaking, merely in the form of an Account of Receipts and Payments, which is journalised in the head office books in a summarised form, the various items of receipt being debited to the manager, and his payments posted to his credit. When it becomes necessary to balance the accounts, this periodical Cash Account is supplemented by a statement of outstanding assets and liabilities at the branch, and these are incorporated in the head office accounts by means of Journal entries.

When this system is adopted it is, of course, only necessary for a Cash Book, or perhaps a Wages Book in addition, to be kept at the branch, but although very suitable for mining undertakings and others of a similar nature, it is quite inadequate where any trade or manufacture is carried on. In these latter cases it is essential that proper books should be kept upon the spot, and that they should be controlled from the head office in the manner which has already been indicated.

Occasionally full duplicates of the branch books are kept at the head office; this, of course, in no way affects the system of accounts, however, as—from a bookkeeping point of view—it is quite immaterial where the books are kept.

Additional Check on Branches.

With regard to trades, however, there is one other means of control which it seems desirable to point out, as, up to the present, it does not appear to be utilised so much as it might be. It is this. In the case of a wholesale or retail firm employing various depôts for the sale of their goods,

all of which are purchased or manufactured at the head-quarters, if the goods are invoiced out to the various depôts at selling price, instead of at cost price, then the Trading Account of the branch should, in the nature of things, show no balance whatever, either to the debit or to the credit. Any balance which it may show represents either that the goods have been sold at more than the price at which it was intended they should be sold, or that they have been sold at less than that price, or else that there has been a waste. Thus a very useful and reliable check upon the stock may be obtained by the simple method of invoicing the goods to the branches at the selling price.

CHAPTER V.

Tabular Bookkeeping.

TABULAR Bookkeeping is a form of accounts which is not in very general use, except in a few industries; but with regard to those particular undertakings in which it is adopted, it seems to be practically the only form in which the accounts can be kept without a very enormous amount of labour indeed.

The general principle of Tabular Bookkeeping is this: (An ordinary Ledger contains a distinct account for each separate person or thing in which transactions occur. All the transactions relating to that particular account are entered therein, irrespective of the date. With Tabular Bookkeeping, on the contrary, the date is the essence of the division of pages, and not the name of the account.) That is to say, a page, or, as the case may be, a certain number of pages, are used for all the transactions during a certain period. The period may be either a day, or three months, or six months, according to the nature of the undertaking, but all the transactions occurring during that period, or at least all those of the particular class which is covered by the Ledger in question, are entered upon the one page or series of pages dealing with that date. They are entered in tabular form, so that the addition one way represents all the transactions with one person, and the addition the other way represents all the transactions of a particular description. It is a matter of convenience which of the totals is vertical and which is horizontal, but probably the usual thing is for the horizontal totals to give the transactions in connection with one person, and for the vertical totals to classify the transactions under the different headings. In the example given below, however, the reverse process is adopted; the vertical columns are the personal accounts, while the horizontal lines are the nominal accounts.

FORM OF TABULAR

1	2	3	4	5	6	7	8	9	10	11	12
Room No. ..	1	2	3	4	5	6	7	8	9	10	11
Name ..	Smith		Kidd			Jones	Brown		Black	Thoms	Jupp
	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
DEBITS—											
Balance brought forward ..	15 8 6	..	4 14 6	..	..	9 16 0	9 16 0	..	..	4 11 0	4 14 6
Apartments ..	5 0	..	..	..	..	5 0	4 6	..	12 0	4 0	3 6
Boarders ..											
Breakfasts ..	2 0	..	..	..	..	3 0	3 0	..	3 0	3 0	2 6
Luncheons ..	2 6	..	..	..	..	3 0	3 0	..	2 6	2 0	1 6
Dinners ..	4 0	..	..	..	..	10 0	10 0	..	9 6	1 6	4 0
Dessert & Ices											
Sandwiches ..											
Tea and Coffee											
Soups											
Suppers ..											
Servants' Board											
Wine	..	..	..	..	..	2 6	3 0				
Spirits and Liqueurs ..											
Ales, Stouts, &c.											
Minerals ..											
Cigars											
Newspapers ..											
Postage ..											
Paid out ..											
Washing ..											
Carriage ..											
Billiards ..											
Stationery ..											
Attendance ..	1 0	..	..	..	..	2 0	2 0	..	1 0	1 0	1 0
Baths	1 0	..	..	..	..	2 6	2 6	..	2 0	1 6	1 0
Fire and Lights											
TOTAL £	16 4 0	..	4 14 6	..	..	11 4 0	11 4 0	..	1 10 0	5 4 0	5 8 0
CREDITS—											
Overcharges ..											
Cash received .	15 8 6	..	..	..	..	9 16 0	9 16 0	..	..	..	4 14 6
Ledger Account	..	..	4 14 6								
Balance carried forward ..	15 6	..	..	..	..	1 8 0	1 8 0	..	1 10 0	5 4 0	13 6
TOTAL £	16 4 0	..	4 14 6	..	..	11 4 0	11 4 0	..	1 10 0	5 4 0	5 8 0

NOTE:—The cross totals are carried forward from day to day throughout the month. At the end of the in column No. 23.

LEDGER.

WEDNESDAY, 3RD FEBRUARY 1897.

13	14	15	16	17	18	19	20	21	22	23
12 Peek	13 Wood	14	15	16	17		Daily Total	Brought forward	Carried forward	Folio
£ s d	£ s d	£ s d	£ s d	£ s d	£ s d		£ s d	£ s d	£ s d	
						DEBITS—				
						Balance brought forward ..	49 0 6	..	49 0 6	
3 6	3 6					Apartments ..	2 1 0	53 7 6	55 8 6	
						Boarders ..				
2 6	2 6					Breakfasts ..	1 1 6	25 7 0	26 8 6	
1 6	1 6					Luncheons ..	17 6	22 9 6	23 7 0	
4 0	4 6					Dinners ..	2 7 6	60 0 6	62 8 0	
						Dessert & Ices				
						Sandwiches ..				
						Tea and Coffee				
						Soups				
						Suppers ..				
						Servants' Board				
						Wine	5 6	11 4 0	11 9 6	
						Spirits and Liqueurs ..				
						Ales, Stouts, &c.				
						Minerals ..				
						Cigars				
						Newspapers ..				
						Postage ..				
						Paid out ..				
						Washing ..				
						Carriage ..				
						Billiards ..				
						Stationery ..				
1 0	1 0					Attendance ..	10 0	12 10 0	13 0 0	
1 0	1 0					Baths	12 6	14 9 0	15 1 6	
						Fire and Lights				
13 6	14 0					TOTAL £	56 16 0	199 7 6	256 3 6	
						CREDITS—				
						Overcharges ..				
						Cash received .	39 15 0			
						Ledger Account	4 14 6			
13 6	14 0					Balance carried forward ..	12 6 6			
13 6	14 0					TOTAL £	56 16 0			

month the figures in column No. 22 are posted in the Nominal Ledger, and the folios inserted

The example shown above is that of the Visitors' Ledger, or Bar Bill Book, as it is sometimes called, of an hotel. It is probably the most common form of Tabular Ledger, but it is almost the only one in which the personal accounts will be found in vertical columns. As has been said before, however, it is quite a matter of convenience which way the book is arranged, and the Visitors' Ledgers of hotels are often to be found with the visitors' accounts arranged in horizontal lines, and the nominal accounts in the vertical columns.

It is desirable that the reader should very carefully consider this form, because it is not only useful as an explanation of Tabular Ledgers themselves, but also it will probably help to clear up any lingering doubts that may still remain as to what the system of double entry is, and to dispel these doubts at once.

For all practical purposes it will be seen that this Tabular Ledger is not only a Ledger, but also an Analytical Day Book ; no other, in fact, is kept, and it is here that a very material saving of time is effected, which is particularly advantageous when the number of items is large, and especially so in the case of an hotel, where it is absolutely necessary that the books should at all times be kept up to date.

Before leaving this question it is desirable to point out that the form of Tabular Ledger which has been reproduced above provides for the totals of the various nominal accounts being carried forward from day to day. At the end of the month they will be posted to the Nominal Ledger, so as to prevent the figures getting too cumbersome by reason of their magnitude. In some cases, however, it is found convenient to post these totals daily into a Summary Book, where they are collected, and the weekly or monthly totals conveyed from there to the Nominal Ledger. There is no material saving of time in using an Intermediate Summary

Book, but it is a very useful book for comparing the takings of the different days and upon the same day in different years, and is, of course, of a much more convenient size to handle than either the Visitors' Ledger or the Nominal Ledger.

Limitations of Tabular System.

There are other uses for Tabular Ledgers, however, which may perhaps readily occur to the reader upon consideration of the distinct limitations which this form of Ledger possesses. Thus whatever the period covered by one page (or series of pages, if the number of accounts be large), it is particularly inconvenient for more than one transaction of any particular class to be entered during the period; therefore Tabular Ledgers must be restricted to those classes of business where, however numerous the transactions may be, there is only one of each class during the day, or during the period which is covered by a page of the Tabular Ledger.

Undertakings which answer these conditions, among others, are the following:—

Gas Companies;

Water Companies;

Rate Ledgers of local authorities;

Allotments Book (in relation to the issue of capital by a company);

and very often it is convenient to keep the Sales Ledger of a colliery upon this plan, because although the number of items during a period is frequently very numerous, they are generally collected into an Intermediate Ledger, where they are only posted in quantities, and at the end of the month, when the statement is made out, the quantities are added and priced according to the contract prices, and then converted

into sterling, so that in the Sold Ledger itself there is only one item for each month. When this system is adopted, of course a Tabular Ledger will be found very convenient.

It need hardly be added that it is also particularly useful for charitable institutions, clubs, and other similar undertakings where subscriptions or other receipts arise periodically.

CHAPTER VI.

Organisation of Accounts.

It seems hardly necessary to point out that the question of organisation of accounts is a very important one, upon which the success of any system of Bookkeeping very largely depends. The following suggestions will show what is meant by the term "Organisation of Accounts"; with slight modifications, the scheme would probably be applicable to any ordinary undertaking:—

Draft Scheme of Organisation.

(1) All cash received to be paid into the bank daily without deduction. The cashier to have no control over any of the Ledgers.

(2) All payments, other than petty cash payments, to be made by cheque, whatever the amount.

(3) The Petty Cash Book to be kept upon the "Imprest System," under the supervision of the cashier. The clerk in charge of the petty cash must on no account be allowed to receive any money for sundry cash receipts.

(4) Counterfoil receipt books to be used for all moneys received, and vouchers obtained for every payment.

(5) The Cash Book and the Bank Pass Book balances to be verified weekly or oftener, and the adjustment to be recorded in a special "Balance Book" or in the Cash Book itself.

(6) All Ledgers to be rendered "self-balancing," and all Trade Ledgers to be balanced monthly. A maximum difference of, say, 1s. to be allowed in any one Trade

Ledger, subject to the approval of the head bookkeeper. All such differences to be recorded from time to time in a special book, kept by the head bookkeeper.

(7) Adequate systems of Stock Accounts and of Cost Accounts to be provided, where suitable for the class of business transacted.

(8) All invoices for goods purchased to be passed by the goods received department, by the buyer of the department concerned, and by the counting house, before being entered in the Purchases Book.

(9) Statements for trade payments to be passed by some responsible person, preferably one of the partners, or, in the case of a company, by the managing director.

(10) The calculation of all sales invoices to be checked in the counting house, before the Sales Ledgers are posted.

(11) Each time the Sold Ledgers are balanced, a list of all accounts more than —— days overdue to be submitted to the head bookkeeper, and by him to one of the partners, or one of the directors, for further instructions.

(12) An efficient system of calculating and paying wages to be introduced and closely adhered to.

(13) The Minute Books to be fully entered up and kept indexed to date.

(14) All exceptional transactions to be reported to the board at the next meeting for approval or further instructions.

(15) The various books required by the Companies Acts to be written up, and the necessary returns made to the Registrar from time to time as may be prescribed.

It is not, of course, pretended that the above list is by any means exhaustive, or that it would apply in its entirety to

many undertakings, but it will have been seen that the two main points of any such scheme of organisation are :—

(1) To provide an "internal check" against either error or dishonesty.

(2) To provide that all the formalities required of a company shall be duly carried out, and in order.

Internal Check.

Upon the first point it seems desirable to make a few further remarks at the present time, as it will not be referred to again, whereas the second point is one which will call for consideration later on.

With regard to the question of an internal check, then, it must be remembered that in devising any scheme for this purpose there are three matters which should be particularly borne in mind. The first is that the person in charge of the cash should never be in charge of any Ledger, or at least of any Trade Ledger into which that cash has to be posted. The second point is that each separate Ledger should be made self-balancing, or at least should be so arranged that it *may* be separately balanced; and where this is, for any reason, not altogether practicable, it is absolutely essential that those Ledgers that it is proposed shall not be checked in detail, should be so arranged that they may be balanced separately from those Ledgers that are fully checked. The third point is that the clerks in charge of the various Trade Ledgers should be frequently changed about, so that no irregularity can remain long undetected without implicating the whole of the staff.

Returns.

Following on with this question of organisation of accounts comes the question of the "Returns" which have to be made at Board meetings. Wherever there are branches

of the undertaking, Returns from each of the branches should also be submitted.

It is very difficult to specify exactly what these Returns should contain, because naturally so very much depends upon the class of business transacted. For this reason no precise form in which the Return for a board meeting should be stated is given here, but it may be mentioned that all the following matters (in so far as they apply) should be included, so that the directors may be properly informed as to the position of affairs, and the progress of the business since they last met.

The Return, then, should show :—

The total sales and purchases in each department of the business carried on;

Details of all contracts which have been entered into;

A summarised account of the receipts and payments, with a Reconciliation Account, agreeing the balance so shown with the Pass Book ;

A statement of the cash which it is expected will be received between the date of the Return and the date of the next meeting ;

A statement of the payments which it will be necessay to make, and for which cheques are being required ;

A statement of the total amount due from debtors, together with a list of those which appear to be overdue ;

A statement of the total amount due to creditors, other than those for whom cheques are asked.

Stock Accounts.

In the case of trading or manufacturing undertakings that hold a stock, it is also very important that Stock Accounts should be submitted at each meeting of the

board, or, at least, once a month. It will, of course, be readily understood that in the majority of undertakings it is quite impracticable for the stock to be actually "taken" monthly; that would not only involve a considerable amount of time and expense, but it would also so interfere with the conduct of the business as to be absolutely impracticable, quite apart from the question of cost. None the less is it very desirable that those who are responsible for the management of the undertaking should be informed as accurately as possible of the amount of stock in hand from time to time; and not only is this information necessary for directors, but it is also equally valuable to the heads of departments, who are not usually conspicuously good at accounts, and are very apt to make quite erroneous deductions as to the precise state of affairs in the absence of definite information being placed before them.

The following is a good form of "Stock Sheet" for this purpose:—

WEEKLY STOCK SHEET.

DEPARTMENT F.

Week ending 30th January 1897

				£	s	
Estimated Stock				1,562	1	6
Purchases				416	3	0
				1,978	4	6
Sales	£721	6	2			
Less Estimated Gross Profit (10 per cent.)	72	2	7			
				649	3	7
Estimated Stock on this date ..				£1,329	0	11

If this is the first period after stocktaking, it will, of course, start with the actual stock ascertained to be in hand; if not the first period, it will start with the estimated stock shown at the foot of the previous Stock Sheet. To this is

added the amount of the purchases made during the period —that is to say, all additions that have been made to the stock. Now, from this amount deduct the *cost price of the goods which have been sold*, as near as that cost price can be ascertained, and the result will be the stock remaining in hand at cost price. The only possible way of arriving at the cost price of the goods sold is to take into consideration the general basis upon which the selling prices are marked. In every trade – and therefore in every separate department of a large undertaking—there is a generally recognised percentage of gross profit, which, although not universally adopted, is at least a good average, which it is expected will be earned, and which the head of the department is expected to earn. If this percentage is deducted from the selling price of the goods that have been sold, the result will be (as nearly as possible) the cost price of the goods that have been sold, and thus this system affords the best available estimate of the actual cost price of the goods remaining unsold.

It is, however, worth while to consider what will be the effect upon this "Stock Sheet" if the percentage of gross profit which has been expected is not actually realised. Supposing a larger percentage of profit is realised, the effect will be that the goods which have been sold will be stated in the Stock Sheet as having cost more than they actually did cost, and therefore the actual cost of the goods remaining unsold will be under-estimated. On the other hand, if the goods have been sold at a price which does not realise the estimated percentage of gross profit, there will have been an under-estimate in the cost of the goods sold, and therefore an over-estimate in the actual stock on hand. The result of this will be that, if to any serious extent the anticipated gross profit is not realised, there will very soon be a cause for complaint at the way in which the estimated amount of stock is increasing from week to week. This is a matter which naturally would call for an explanation upon the part of the buyer, and the only

explanation that he could possibly give would be, either that the stock was larger than it ought to be, that it was not so large as stated to be, or that there were special reasons why it should be larger than usual. The first, of course, is an admission that he is managing badly; the second, that he is not making the profit he ought to be making; and only the third is any real justification of his position. Therefore, although there are limitations to the usefulness of these Stock Sheets, they certainly do enable directors to have a better hold upon the departmental managers as to their trading from month to month than could be otherwise obtained.

Interim Trading Accounts.

Apart from this advantage of enabling those with a practical knowledge of the business to control the departmental managers, these periodical Stock Sheets possess another very important advantage, namely, that they make it a perfectly simple matter for the secretary to place before the board from time to time an Estimated Trading Account showing the result of each month. Of course, this account is only an "estimated" one, because the stock is only estimated; but, as has been pointed out, it is only within certain fairly reasonable limits that the stock can be inaccurately stated without the attention of the directors being called to the fact, and thus these periodical accounts will be sufficiently accurate to form at least a very much more reliable idea of the way in which the business is going on than could be obtained by any other means.

For practical purposes it is probably only the Trading Account that it would be worth while to take out in detail each month. This Trading Account (which may advantageously be in tabular form) should deal with each separate department, showing the gross profit earned by that department, and these gross profits can be carried forward to an interim Profit and Loss Account, against which it will

probably be sufficient for the expenditure to be lumped in the form of an estimate.

Petty Cash.

Another point that may usefully be dealt with in this connection is the "Imprest" system of petty cash, which is unquestionably the best to adopt in all classes of undertakings. This system is at once the best and the most simple, but for the benefit of those who may not hitherto have heard of it, it may be stated that the general scheme is that, at the end of each week, the petty cashier applies for a cheque for the exact amount of the payments which he has made during the week. This cheque he receives in due course, and his balance in hand is then restored to the round sum with which he was started, and which he is always debited with in the Ledgers as being in his hands. When balancing time comes, however, it is usual to require the petty cashier to pay this amount again into the bank, so that there may be no balance upon the Petty Cash Account in the Ledger.

The great convenience of this system is that it ensures a proper supervision of the petty cash being made frequently—that is to say, each time a cheque is asked for; whereas if cheques on account are being frequently given to the petty cashier, the supervision of his accounts is, in busy times, apt to be left over, until, perhaps, it is too late for the account to be supervised with advantage.

Another point which is well worth considering is that by this means the Petty Cash Book becomes an entirely subsidiary book, from which it is no longer necessary to make any postings. It is usually kept in columnar form, so that the totals of the various classes of expenditure may be kept separate. When a total is struck and the cheque applied for, it is quite a simple matter to see how the total of the payments is made up among the different classes of expense, and the cheque may be conveniently

entered in detail in the General Cash Book and posted direct to the various Nominal Accounts. On the other hand, in order to save the time of the head bookkeeper, who usually keeps the General Cash Book, the method is sometimes adopted of passing Journal entries for the petty cash payments, debiting the various Nominal Accounts and crediting the Ledger Petty Cash Account, which latter has already been debited with the various cheques given to the petty cashier from time to time. On the whole, however, it is probably best to post direct from the General Cash Book to the various Nominal Accounts in the Ledger.

CHAPTER VII.

Balancing Accounts.

IN the present chapter it is proposed to invite the reader's attention to the various questions that arise when the ordinary half-yearly or yearly period comes round at which it is the custom for the books to be balanced, and a Balance Sheet and a Trading and Profit and Loss Account prepared, showing respectively the financial position of the company and the effect of its transactions during the current period.

The first point which has to be thought of in this connection is to see that all the books are properly written up and posted. In a sense, of course, this point always claims attention, but when one comes to balancing, it is more than usually important, because we have to be particularly careful to see that all the transactions which have occurred have been actually recorded in the books. Those transactions which occur in the ordinary course of trading will, no doubt, have been recorded in the usual way through the books provided for that purpose, but at balancing, in addition to this, it is necessary to be particularly careful to see that all outstanding assets and liabilities are properly included in the accounts. A considerable number of these will usually be found, mostly affecting the various Nominal Accounts. Thus the rent accruing up to date will have to be passed through the books, together with any taxes that may be due; on the other hand, the taxes may be paid in advance, and it may be necessary to debit Suspense Account with the proportion so paid in advance; again, very likely the rates will be paid in advance. On the other hand, again, wages and salaries will probably only have been paid up to some date previous to the date of balancing; and here

again a proportion accruing to the end of the period will have to be passed through the books.

It is particularly important that all these matters should be very carefully attended to, partly because without them a true statement of the position of affairs cannot be arrived at, and also because it is only the secretary in many undertakings who is really in a position to be sure that all such transactions have been given effect to in the books. An auditor can find out the omission of such straightforward items as rent or wages accruing; but there will often be little items known to the secretary, which could not possibly become known to anyone else connected with the undertaking—least of all the auditor, who only appears upon the scene once or twice a year.

With regard to balancing itself, if advantage be taken of the suggestions put forward in Chapter III., and a system of self-balancing Ledgers be adopted, there will, in all probability, be very little trouble about balancing the books as a whole. Those Ledgers in which the largest number of entries are made will have been separately balanced at least monthly, and the probability is that the remaining Ledgers, namely, the Nominal Ledger and the Private Ledger—or, perhaps, all these transactions may be kept in a single General Ledger—will not be sufficiently voluminous to give any great trouble. Nevertheless, mistakes do sometimes crop up, and it is well worth while, in this connection, to pause for a moment and consider how such mistakes are likely to have arisen, and what is the best means of detecting them.

Detection of Errors.

When any particular Ledger does not balance in itself, the first step towards ascertaining the mistake is to compare the Adjustment Account in that Ledger with the corresponding account in the General or Private Ledger. These two accounts should be absolutely identical, except that the entries will be upon the reverse sides of the

Ledger; and, if it is found that there is any discrepancy between the two accounts, it must be traced, to see where it arises; for, naturally, one of the two will have to be altered, and this will probably affect the balancing of that particular Ledger.

Assuming, however, that the Adjustment Accounts do themselves agree, it may be taken (at all events for the moment) that they are, in themselves, correct, and that the mistake which prevents the Ledger balancing has occured in some other account in that particular Ledger. If the balances have not been brought down or ruled off since the Ledger was last balanced, it is a very good plan to take out, instead of the balances, the totals upon each side of the Ledger. The debit totals of all the accounts, except the Adjustment Account, should, in this case, be exactly equal to the credit total of the Adjustment Account; while the total of all the items posted to the credit of the various accounts, except the Adjustment Account, during the period should be equal to the total of the debit entries to the Adjustment Account. By this means the error can be fixed as being upon one side of the Ledger or the other; or it may, perhaps, be found that the apparent discrepancy in the balancing is really made up of, at least, two mistakes. Thus, for instance, a balance of £5 10s. may be found to consist of ten guineas too much upon one side of the Ledger, and five pounds too much upon the other side. Either way, one step will have been made towards the truth; and it is only by proceeding thus slowly and carefully that it is possible to arrive at a true result, for there is no royal road towards discovering errors in accounts.

It is just because there is no royal road in discovering mistakes in balancing that it is so particularly important that the original transaction should be recorded with the greatest possible care; but as—in spite of the utmost precaution—mistakes will occasionally occur, it is necessary, even in the best regulated concerns, to consider what means may be taken to detect discrepancies when they arise.

As has been pointed out, the first step is to find out in which Ledger the mistake occurs, and the second step is to find out upon which side of the Ledger it is to be looked for. Having gone so far as this, it is probable that it will be mere waste of time to go to any considerable trouble in looking for an error of that precise amount. It will probably be simpler to go steadily through the whole of the work upon that side of the particular Ledger. It may be mentioned, however, that a little hand-book, entitled "Errors in Balancing," is published by Messrs. Gee & Co., 34 Moorgate Street, E.C., at the modest price of one shilling, and that this book may be useful on account of the valuable general hints it contains, if not for the sake of the rather elaborate tables showing in what manner almost every conceivable difference in balancing may have arisen. The author's experience, however, is that it is but a poor consolation to know that a mistake, say to the extent of 7s. 4d., may have arisen by posting 8d. as 8s., and *vice versa*, because it generally takes quite as long to find the mistake out when this has been ascertained as it did before.

But sometimes the principle of "spotting" mistakes is worth adopting, because it occasionally happens that the amount is a very unusual one and can therefore be readily traced. Take a very simple example. In the case of Share Accounts, the probability is that no fraction of a shilling (except perhaps 6d.) ought ever to occur in these accounts at all, and if, therefore, the Share Ledger Trial Balance shows the difference of anything but a multiple of 6d. it ought to be a very simple thing to look through and find the item which accounts for the odd money. But in endeavouring to find out mistakes in balancing, it is not worth while to spend too much time in trying to "spot" the actual error by seeking to analyse its particular constitution. It is much better to localise the error as far as possible, and then to go thoroughly and carefully through the whole of that particular part of the work, and discover where the mistake has been made. For this reason it is

important that the Ledgers should be subdivided to a reasonable extent, so that the errors may be localised into some comparatively small space; otherwise the examining of books for an error in balancing might easily become a work of considerable magnitude.

Before leaving this point it will be well to mention that there is another method of discovering errors in balancing which is occasionally resorted to by companies' secretaries, but which, in the opinion of the author, cannot be adopted by a company secretary without a considerable loss of self-respect. This method is to simply leave the matter for the auditors to find out when they come to check the books. This, it will be admitted, is a clear admission of incompetency upon the part of the person in charge of the books. It is virtually a statement by him that he is unable to balance his books, and that he has got to ask somebody else to do his work for him. This position of affairs would perhaps be reasonable if it were really part of the auditor's work to balance the books, but as a matter of fact it is nothing of the kind. There is no doubt a considerable amount of difference of opinion as to what an auditor's duties and responsibilities are, and neither accountants nor lawyers are absolutely unanimous upon these points; but, so far as any particular company is concerned, the duties of an auditor are settled by the Articles of Association, subject to the provisions of the statutes, and it will be found that in almost every set of Articles of Association it is stated that it shall be the duty of the auditor to examine an account which has been placed before him, and that it is the duty of the directors to cause such an account to be prepared. It cannot be said that the directors or the secretary are complying with this provision if they place before the auditor an account which they know to be wrong and expect him to rectify it.

Preparing for Audit.

It is thought, however, that most readers will be sufficiently zealous of the importance of the office of a

company secretary to assent to the statement that the secretary is responsible for the preparation of accurate accounts for submission to the auditor, and that it is his duty to see that these accounts are in accordance with the books and accurately balanced. That being so, it is clearly the secretary's duty to balance the books, or to see that they are balanced; but as this is by no means all that has to be done before the books and accounts can be said to be ready for audit, the following summary is appended, showing what an auditor would ordinarily expect to find done before he commences his examination :—

(1) All postings should be completed; all additions inked in; all balances extracted, and the Trial Balance agreed.

(2) Vouchers for all payments should be arranged in order and available.

(3) A complete list of all books, with the names of the clerks in charge of each, should be prepared.

(4) If possible, the cash in hand at the date of closing the books should be paid into the bank; and where this has not been done the cashier must have his books written up to the date of audit, and vouchers ready, as otherwise it is impossible for the auditor to verify the statement of cash in hand.

(5) The Pass Book should be made up to date and obtained from the bank, together with a certificate as to the amount of the balance.

(6) A complete inventory of the stock—priced, extended, added, and duly certified—should be ready.

(7) All bonds, bills, deeds, and other securities to be ready for production when called for by the auditor, and a list thereof should be prepared.

(8) A list of all overdue accounts, showing the provision (if any) which it is deemed necessary to make against possible loss, should be prepared.

(9) A memorandum should be kept of any other matter to which it is thought desirable to call the auditor's attention.

(10) A draft Balance Sheet and Trading and Profit and Loss Accounts should be prepared, and (subject to audit) be approved by the board.

It will be seen from the above that the accounts should, in every respect, be absolutely complete before the auditor is advised that they are ready for him to commence his examination; but, on the other hand, it is by no means intended to convey the impression that auditors are desirous of keeping themselves in the background, and not rendering assistance upon matters where their views may be asked, whenever it seems expedient in the interests of the company that they should be consulted. In points of doubt and difficulty it is always expedient that the auditor should be consulted at the time—or even before—the entries are made; and this applies not only to entries which are in the nature of closing entries, made when the books are being balanced, but also to all entries recording transactions of an unusual nature which may occur from time to time in the course of the company's operations. From all points of view it is very much better that these matters should be attended to as they arise than left to accumulate till the time of audit.

One of the most important matters which have to be got ready for the auditor is the balancing of the cash. Under ordinary circumstances the usual course will, no doubt, be adopted of paying all receipts into the bank daily without any deduction, and making all payments (other than petty cash disbursements) by cheque; but, whether this be so, or whether the more old-fashioned one be employed of paying into the bank round sums of money from time to time which are in excess of current needs and making numerous payments in cash through the Cash Book, the fact remains that in either case it becomes necessary at balancing time (if not oftener) for the auditor to verify the accuracy of the balance of cash in hand and at the bank. This is a matter which

should not, so to speak, be "thrown at" the auditor, for him to make the best he can of; a proper "reconciliation" of the balance shown by the Cash Book and the balance shown by the Bank Pass Book should be prepared, if not by the secretary then at least by somebody under his control, to be submitted to the auditor at the date of the audit. It is usually, of course, desirable, if it can be arranged, that the auditor should verify the cash at the actual date when the books are being closed for balancing; but this is not always practicable, and where matters have not been so arranged, it will be necessary that the accounts —so far as the cash is concerned—should be taken up to the actual date of the auditor's visit, so that he may verify the cash in hand on that day. The only means of avoiding this is for everything that is in hand on the date of balancing to be paid into the bank, and then, of course, the Pass Book will be a sufficient record as to what was the balance at the bank upon that date; and, there being no balance of cash in hand, there is no necessity for the auditor to attend for the purpose of counting it.

It has been thought expedient to dwell at some length upon the method of reconciling the balance of the Cash Book with the balance shown by the Pass Book, for the benefit of those whose experience in this matter is somewhat limited. This is done by means of what is known to accountants as a "Reconciliation Account," of which a form is given below:—

RECONCILIATION ACCOUNT, 31st December 1896.

	£ s d	£ s d
Balance as per Pass Book	..	1,493 6 10
Add Amounts not credited :—		
January 1st 1897	56 1 9	
" 2nd 1897	108 6 2	
		164 7 11
		1,661 14 9
Less Cheques not presented :—		
December 16th, Jones	4 1 8	
" 27th, Smith	101 10 0	
" 31st, Robinson	16 0 0	
		121 11 8
Balance as per Cash Book ..	..	£1,549 3 1

It is hardly necessary to point out that, in so far as there is anything in it at all, it is well worth the secretary's while to save the auditor all the trouble he can at an audit; because it is impossible for him, by merely raising difficulties, to expect the auditor to fall short of that full investigation which it is only right and proper that he should make. In the long run it only gives additional trouble to both, if the accounts are not ready in proper form, together with all other documents necessary for their investigation.

Among other things which, in all probability, would be asked for by an auditor, would be some certified statement that the various additions which had been made to the capital assets of the undertaking were really incurred, and that they were properly chargeable against capital in the proportions which were stated in the books of account. Upon this point the certificate of the managing director should be obtained, if there is a managing director; and if not, then the certificate of the manager, or some other competent person deputed by the board to certify the matter in question. The same remarks apply to the value of the stock-in-trade, which should be very fully certified by the employees of the company.

Draft Accounts.

Coming now to the draft accounts themselves, these have to be prepared, of course, from the Trial Balances that have already been extracted from the various Ledgers. It is not unusual for Articles of Association to provide that the accounts should be signed by two or more directors and by the secretary of the company; but it is well to point out that, whether or not the Articles do so provide, the fact remains that the accounts which are being prepared are really neither more nor less than the accounts of the directors which are about to be submitted by them to their employers (the shareholders); but that, before this can be done, these accounts of the directors (which have been

prepared for them by their secretary) must be submitted by them to the auditor, who is also a servant of the shareholders, so that they may be passed by him before being placed before the shareholders themselves for final approval or rejection.

It may, perhaps, be thought that these are mere truisms, but in so many individual cases have directors and secretaries failed to appreciate the real position of affairs that it has been thought well worth while to dwell upon the matter at length.

That being so, it follows that the directors, and they alone, are responsible for the form in which the draft accounts are prepared. Indeed, it is sometimes expressly stated in Articles of Association that the auditor shall have no control over the system of Bookkeeping adopted, or the form in which the accounts are to be submitted to the shareholders. But although it is rare for such provisions to be actually contained in the Articles, they are always implied unless the contrary is expressed—which, it may be added, is never done.

In practice, however, it is not unusual for the directors to invite suggestions from the auditor as to the form which the accounts shall take; but, as what may be considered the best form will naturally vary very much under different circumstances, it is hardly profitable to go into the matter at length here, beyond saying that it is desirable that the actual accounts which are submitted to the auditor should be as full and complete as possible, but that, on the other hand, it is usually inexpedient that so much detail should be submitted to the shareholders. Still, there is a limit to the extent that a Balance Sheet should be condensed; and on no account should assets which have nothing in common

be grouped together under a single heading. For ordinary purposes it is not easy to improve upon the form of Balance Sheet appended to the Companies Act, 1862 ("Table B"), and it is usually best to follow these lines as far as individual circumstances permit.

With regard to the Trading and Profit and Loss Accounts. it is not usually expedient that the Trading Account should be published at all, as it generally affords information which might be used by rivals to the detriment of the company; and it is by no means always that the Profit and Loss Account is printed in full. These, however, are matters which, under the Articles of Association, are almost invariably left to the discretion of the directors.

The only point that need still be considered is that of submitting the draft accounts after they have been prepared. The usual course, and, indeed, the proper course, is for the accounts to be submitted to the board *before* they are submitted to the auditor. They should then be considered by the directors, and, subject to such modification as may be found necessary or thought desirable, a minute should be passed to the effect that they have been approved by the board, subject to audit. The auditor may then properly be advised that the accounts are ready for him to audit; and the accounts which are then actually put before him will really be the accounts of the directors, which it is desirable that they should be, in fact as well as in law.

After being audited the accounts have to be submitted to the company in general meeting, and do not become the accounts of the company until they are adopted by resolution of the company in general meeting. It is difficult to say, however, what is precisely implied by this adoption of the accounts by the company. Many Articles of Association expressly state that, after being so adopted, the accounts

are "binding upon all parties concerned"; but it is doubtful whether the mere fact of their being so adopted is a bar to the accounts being re-opened at a subsequent stage, when the company has gone into liquidation. This, however, is a point which is only remotely connected with the present subject, and which, therefore, need not now be considered at ength.

CHAPTER VIII.

Applications and Allotments.

It is now proposed to direct attention to some of the most interesting matters in connection with the accounts of joint stock companies, and at the same time those which peculiarly relate to companies, and to them alone. Shortly stated, they are the various points which arise in connection with the allotment of shares and the issue of debentures, and any subsequent entries which may be necessary in connection with the increase or reduction of these issues.

Dealing first of all with applications. It is usual, in the case of a company of any magnitude, to employ the auditors to carry through the necessary work up to the point of the allotment of shares; but, all the same, it is thought desirable to take a somewhat higher ground, and as far as possible prepare the reader for doing the whole of the work that might fall to a company secretary, and not merely that which is ordinarily deputed to him on account of his, perhaps, somewhat limited experience. The subject will therefore be dealt with absolutely from the beginning; and although in many cases it may be that the reader will never be required to undertake any work in connection with an allotment, yet on the other hand no harm can be done by knowing how this work has to be performed.

The ordinary procedure, of course, is for the prospectuses to be issued containing the form of application for shares. It is unnecessary to deal with the precise nature of this form, beyond stating in general terms that it is a definite undertaking upon the part of the person signing it to accept an allotment of shares up to the number

stated in that form, or any less number that may be allotted, and that it is binding upon the applicant unless he has withdrawn his application previous to the allotment being actually made. These application forms have, of course, to be arranged and tabulated in proper form for the directors, so that they may be saved trouble when they meet to decide upon an allotment, and may further be in a position to really understand the effect of what they are doing. Here, again, is afforded an instance of the utility of Tabular Bookkeeping. The various application forms, as they come in, are entered up on sheets in a form somewhat similar to that shown on the following page:—

A. APPLICATIONS AND

Date of Application	No. of Application	Name	Address	Occupation	No. of Shares Applied for	Folio	Amount of Deposit	Proposed Allotment	No. of Letter of Regret
1896							£ s d		
Dec. 1	1	John Adams ..	61 Whitehall, S.W. ..	Gentleman	400	1	40 0 0	400	..
" 1	14	Joseph Aaron	14 Houndsditch, E.C.	Merchant	50	2	5 0 0	50	..
" 2	17	Arthur Abel ..	490 Oxford Street. W.	Grocer ..	200	6	20 0 0	200	..
" 3	27	Hy. Ackland	Manchester	Merchant	10	11	1 0 0	..	1
							£66 0 0		

NOTE.—There would be a separate sheet (or sheets) for each letter of the alphabet,

ALLOTMENTS BOOK.

No. of Allotment	No. of Shares Allotted	Distinctive Numbers of Shares Allotted		Amount Payable on Allotment	Cash Received			Cash Returned			Amount Due	Folio in Share Ledger	No. of Certificate
		From	To		Date	Fo.	Amount	Date	Fo.	Amount			
				£ s d	1896		£ s d	1896		£ s d	£ s d		
1	400	1	400	60 0 0	Dec. 6	1	60 0 0	..	..	..	..	1	1
2	50	401	450	7 10 0	" 5	2	7 10 0	..	..	..	..	2	2
3	200	451	650	30 0 0	" 6	3	30 0 0	..	..	..	..	3	3
..	..	..	..	..	..	..	..	Dec. 4	1	1 0 0			
	650			£97 10 0			£97 10 0			£1 0 0			

and a summary sheet, to which the totals of each sheet would be carried.

A separate sheet (or sheets) is employed for each letter, so that the applications are, from the first, automatically sorted into alphabetical order; and, where subscriptions are invited for more than one class of share, it is best to employ separate application forms, printed on different coloured paper, and to keep the Applications and Allotments Sheets for the two sets quite distinct.

Eventually, when the whole of the allotment has been completed, these sheets will be bound up in a book and form a permanent record; but, in the meantime, it is a great convenience that they should be loose, as it is then possible to put a larger number of assistants upon the work. This question of dividing the labour is a very important one, inasmuch as it is the usual thing for the subscription list to be closed at four o'clock one day, and it is then necessary that the Applications and Allotments Sheets should be ready for the directors probably at an early hour on the following morning; so that, even when the best possible means of economising time are employed, it is often necessary to make an all-night job of this preparation for allotment.

In the form of Applications and Allotments Sheet shown above, it will be seen that upon the left-hand side of the page are columns for all the various particulars which it is necessary to put before the directors in order to enable them to arrive at a conclusion upon the subject, viz., the name, address, and occupation of the applicant, the number of shares that he has applied for, and the amount which he has deposited thereon. It is hardly necessary to mention that the occupation of the applicant has a material bearing upon the matter in many classes of companies, because—other things being equal—it is always desirable to include upon the Register of Members as many persons as possible who are interested in the trade, so that they may be induced to influence business.

The next column in the form is headed "Proposed allotment." This column will usually be found of considerable utility; it is filled in by the secretary (or by the person responsible for the preparation of these forms) as a rough guide to the board upon the course which they should pursue. It is, of course, not filled in until the list has been closed, although the various sheets are being prepared from hour to hour as the applications come in; but, after the list has been closed and the number of applications ascertained, it is very desirable (in the event of there being an over-subscription) that someone who is able to bring a certain amount of intelligence to bear upon the subject should look through the applications with a view to throwing out those which may appear to be undesirable, either because they seem to come from competitors (who might be undesirable members of the proposed company), or because the applications are for a very small number of shares, which, in the event of an over-subscription, are naturally the first to be crowded out. It does not, of course, by any means necessarily follow that the figures contained in this column will correspond with the actual decision of the directors when they come to consider the matter later on; but, nevertheless, it is a useful guide to them, and is merely intended as such. It is the column headed "Number of shares allotted" that is the actual result of the directors' deliberations.

The allotment is made by the directors by resolution. It is particularly desirable that this resolution should be in due form, and therefore, although, strictly speaking, it is a legal matter, it is hoped that it will not be considered as going beyond the province of the present work to suggest a form of wording for a resolution of directors covering an allotment of shares. The form suggested is as follows:—

"The secretary reported that in response to the adver-
"tisement of the prospectus offering *100,000* preference

"shares and *100,000* ordinary shares of *£1* each for sub-"scription, applications had been received, as appeared "by the Applications and Allotments Book, for *162,500* "preference shares and *108,510* ordinary shares, and that "the subscription list was closed at *4 p.m.* on *3rd December* "*1896*. Resolved that *100,000* preference shares of *£1* "each and *100,000* ordinary shares of *£1* each be and are "hereby allotted to the applicants in accordance with the "number of shares appearing in the allotment columns of "the Applications and Allotments Book. The secretary "was instructed to prepare and issue the necessary "allotment letters and letters of regret forthwith, and to "draw cheques for the return of application money where "necessary."

The following are good forms for an Allotment Letter and a Letter of Regret respectively :—

FORM OF ALLOTMENT LETTER

THE LOST HILL GOLD MINING COMPANY, LIM.

6d. stamp if over £5, 1d. stamp for any less sum.

ALLOTMENT LETTER No. *1.*

Winchester Buildings, London, E.C.,
4th December 1896.

SIR,

I beg to inform you that, in pursuance of your application, the directors have allotted to you *400* ordinary shares of £1 each in this company, in terms of the prospectus dated 27th November 1896.

I shall be glad, therefore, if you will kindly pay the sum of *£60*, being 3/- per share, the amount due on allotment, on or before the 6th instant to the company's bankers, as under.

Your obedient servant,
A. SHARPE,
Secretary.

To *John Adams, Esq.,*
61 Whitehall, S.W.

[This half to be retained by the bankers.]

THE LOST HILL GOLD MINING COMPANY, LIM.

BANKER'S RECEIPT FOR ALLOTMENT MONEY
(being 5/- per share called up).

520 Lombard Street, London, E.C.,
6th December 1896.

Received of *John Adams, Esq.*, the sum of *sixty pounds* being 3/- per share due on an allotment of *four hundred* ordinary shares of £1 each in the above company.

For ARGENT & Co., Lim.

Receipt stamp.

Cashier.

[This half, when receipted by the bankers, must be preserved by the shareholder, to be exchanged for the share certificate in due course.]

This sheet must be presented entire to the company's bankers, with the amount payable. Cheques should be drawn to "bearer," or to the order of the *bankers*.

FORM OF LETTER OF REGRET.

No. 27.

Winchester Buildings, London, E.C.,
4th December 1896

To *Henry Ackland, Esq.*,
Manchester.

SIR,

I regret to inform you that the directors are unable to allot you any of the ordinary shares of this company in compliance with your application for ten shares of the company.

I enclose you cheque for *£1*, being the amount paid by you on the above-mentioned application, and shall be glad if you will sign the form of receipt at the foot of the cheque sent herewith, and present the same for payment through your banker's.

I am, Sir,
Your obedient servant,
A. SHARPE, Secretary.

....

No. 27. 4th December 1896. | 1d. impressed stamp. |

To Messrs. ARGENT & Co., Lim.

Pay to *Henry Ackland, Esq.*, or order, the receipt below being signed, the sum of *one pound.*

For The Lost Hill Gold Mining Company, Lim.
B. LEVELL, Director.
A. SHARPE, Secretary.

RECEIPT.

6th December 1896.

Received of THE LOST HILL GOLD MINING CO., LIM., the sum of one pound, being the amount deposited by me on application for ten shares in the same.

| Receipt stamp. |

HENRY ACKLAND.

£1 0 0.

Entries in Financial Books.

With regard to the actual entries which it will be desirable should be contained in the books of the company, it is great saving of time for all *details* in connection with the Share Capital Account to be recorded only in the Share Books, but, on the other hand, it is very desirable that there should be some means of readily ascertaining that the entries in the Share Books are absolutely correct. Here the principle of the Adjustment Account is of the greatest use. It will be found a great help to the reader for him to consider the Share Ledger as a "Departmental" Ledger in exactly the same way as the Sold Ledger or the Bought Ledger might be; but at the same time to remember that the Private Ledger will contain accounts which are virtually Adjustment Accounts, summarising the entries in the Share Ledger, and testing the accuracy of these entries. It is a question of expediency as to whether or not there should be more than one Adjustment Account. Unless the number of shareholders is very large, probably one account, called "Shareholders' Account," will be quite sufficient; but in the event of the company being of considerable magnitude, it is desirable that the Adjustment Account should be subdivided into "Applications and Allotments Account," "1st Call Account," "2nd Call Account," &c. This, however, is a matter of detail which need not be dwelt upon at any great length. The main point is this: When the applications come in they are accompanied by a deposit, and the application form and the deposit are both left with the company's bankers, who record the entry of the deposit in the company's Pass Book. Usually there is a separate Pass Book for this particular purpose alone, but sometimes there is only one Bank Account. In any case the bank, in due course, hands over the application forms to the company; and, in addition to their being entered up in the Applications and Allotments Book, which has already been dealt with in detail, the cash paid to the company's bankers has, of

course, to be entered up in the company's Cash Book. It may be thought desirable to enter the amounts in detail in an inner column on the debit side of the Private Ledger (or General) Cash Book, or it may be found convenient—and in the case of a large company, no doubt, will be found necessary—for a separate Share Cash Book or Share Cash Books to be kept, in which these details are entered, and the daily or weekly totals transferred to the General Cash Book. The principle in either case will be the same, viz. that the details will be posted to the credit of the various applicants upon the Applications and Allotments Book in the columns which you see are available for that purpose, while the totals of the daily or weekly receipts in respect of applications, &c., will be posted to the credit of the Shareholders' Account (or the Applications and Allotments Account, as the case may be) in the Private Ledger. When the allotment has been decided upon and the amount due thereunder paid, the Applications and Allotments Sheets can, of course, be readily filled up, and a careful study of the form will enable the reader to readily perceive how the balances which have to be transferred to the Share Ledger itself are arrived at.

The Share Ledger.

A form of ruling for a Share Ledger is given on the following page:—

Name: JOHN ADAMS.

Address: 61 WHITEHALL, LONDON, S.W. *Occupation*: Gentleman.

SHARE ACCOUNT. DR. CASH ACCOUNT. CR.

Shares disposed of					Shares acquired					Balances										
Date	Folio	Distinctive Nos. from	to	No. of Shares	Date	Folio	Distinctive Nos. from	to	No. of Shares	Date	No. of Shares	Date	Particulars	Amount called up	Fo.	Amount	Date	Particulars	Fo.	Amount
																£ s d				£ s d
1897 Feb. 28	1	1	100	100	1896 Dec. 4	1	1	400	400	1897 Feb. 28	300	1896 Dec. 4	Allotment ..	5/-	a1		1897 Jan. 6	By Cash ..	c12	100 0 0
												" 6	First Call ..	10/-	c1	100 0 0	Feb. 9	" Do. ..	c146	200 0 0
												1897 Jan. 6	Second Call	20/-	e168	200 0 0				
																£300 0 0				£300 0 0

Some forms of Share Ledger show preference and ordinary shares upon a single opening, but it will usually be found desirable to have separate Share Ledgers for preference shares and ordinary shares. This, however, again is a matter of detail and individual convenience.

Adjustment of Share and Private Ledgers.

Now, in order to complete the agreement between the Adjustment Account and the Share Ledger, it is necessary to make corresponding entries in the Private Ledger for all those appearing in the Share Ledger. These entries will be passed through the Journal, the principle being that the Shareholders' Account (or the Applications and Allotments Account, as the case may be) is debited with the amount due on allotment in respect of such allotment, while the Share Capital Accounts (one of which must be opened in respect of each different class of shares) are credited with the actual amount due on allotment in respect of the number of shares allotted in each individual case. It has not been thought desirable, or necessary, to put before the reader the actual form of these entries, inasmuch as they are perfectly straightforward, but it is hoped that he will be able to follow this short statement of what has to be done. In order, however, to make the point a little clearer, it may be well to point out these two facts :—

(1) That the balance of the Share Capital Account (or of each Share Capital Account, if there is more than one) should at any time correspond with the actual amount *called up* in respect of that class of shares.

(2) The Shareholders' Account, if it shows a debit balance, will indicate the total amount of *calls unpaid* by shareholders, less the amount of deposits received from applicants which are returned by reason of allotments not having been made. If it shows a credit balance, it must be because the latter exceed the former; but this, of course, is extremely unlikely, unless the prospectus prescribes that the amount of the deposits with applications shall be the full amount due upon allotment.

The description appended to these Journal entries should invariably be as full as possible; and, in the case of a share issued as fully or partly paid-up, the contract under which the allotment is made must be registered with the Registrar of Joint Stock Companies prior to allotment.

Calls.

With regard to subsequent "Calls" upon shares which have already been allotted, some Applications and Allotments Books provide further additional columns for these calls to be recorded in tabular form, and for payment of the amount due to be also entered therein; but this seems to be a mistake, inasmuch as it delays the opening of the Share Ledger, which is very undesirable in most cases. A better course to adopt is to have a separate "Calls Book," which for all practical purposes is an ordinary Day Book. The details recorded in this Calls Book are posted to the right-hand page of the Share Ledger whenever a call is made; and at the same time a Journal entry is recorded, crediting Share Capital Account with the amount of such call, and debiting the Shareholders' Account therewith. If the number of shareholders is large, and there is any considerable amount of arrears upon the Applications and Allotments Account, however, it is desirable that the debit of the call should be passed to another account, so that these two matters may be kept distinct, and then the new account will be opened called "1st Call Account," or "2nd Call Account," as the case may be, to which the amount of the call will be debited, and against this account will be posted the daily or weekly totals of the sums of cash received from shareholders in payment of calls. The result in either case is the same, namely, that if a list of balances is extracted from the Share Ledger, showing the amount due upon allotment or upon calls, the total of such list should at any time agree with the corresponding Adjustment Account in the Private Ledger. The following is a good form of Call Letter :—

This sheet must be presented to the company's bankers, Messrs ARGENT & Co., Lim.

FORM OF CALL LETTER.

THE LOST HILL GOLD MINING COMPANY, LIM.

No. *1*.

NOTICE OF FIRST CALL OF 5s. PER SHARE ORDINARY SHARES

(making 10s. per share called up).

6th December 1896.

SIR,

I beg to give you notice that the first call of 5s. per share has this day been made by the board in accordance with the terms of the prospectus.

On the *400* ordinary shares held by you in this company, the call amounts to *£100*. This amount should be remitted to the company's bankers, Messrs. ARGENT & Co., Lim., on or before the 4th prox.

I am, Sir,

Your obedient servant,

A. SHARPE,

To *John Adams, Esq.*, Secretary.

61 Whitehall, S.W.

[This half to be retained by the bankers.]

....

THE LOST HILL GOLD MINING COMPANY, LIM.

No. *1*.

BANKERS' RECEIPT FOR FIRST CALL OF 5s. per Share on Ordinary Shares, payable 4th January 1897.

(making 10s. per share called up).

Received the *6th* day of *January* 1897 from *John Adams, Esq.*, the sum of *One hundred* pounds, being first call of 5s. per share, due 4th January 1897, on *100* shares in the above company.

For Messrs. ARGENT & Co., Lim.

Receipt stamp.

£100 0 0 .... Cashier.

[This half when receipted by the bankers must be preserved by the shareholder, to be exchanged in due course for the share certificate.]

Issue of "Fully-paid" Shares.

It is well to call attention to the fact that Section 25 of the Companies Act, 1867, provided that "Every share in "any company shall be deemed and taken to have been "issued and to be held subsequent to the payment of the "whole amount thereof in cash, unless the same shall have "been otherwise determined by contract duly made in "writing, and filed with the Registrar of Joint Stock Com-"panies at or before the issue of such shares." This clause was of considerable practical importance, in view of the fact that in almost every case the vendors of an undertaking to a company agree to take a certain number of "fully-paid" shares as part consideration of their purchase price. In respect of these fully paid-up shares it was necessary that a contract in the terms of the above section should be filed at Somerset House with the Registrar of Joint Stock Companies "at or before" the time of the allotment. Since the passing of the Companies Act, 1900, however, the above section has been repealed. It is now provided (Section 7*b*) that "in the case of shares allotted in whole or in part for a "consideration other than cash, a contract in writing con-"stituting the title of the allottee to such allotment, and all "contracts incidental thereto are to be filed with the "Registrar within one month after such allotment."

The actual entries in the books themselves are comparatively simple. A Journal entry will be required, debiting the vendors and crediting the Share Capital Account with the face value of the shares actually issued. These shares will ordinarily be posted into the Share Ledger from an entry at the foot of the Applications and Allotments Book, with a note to the effect that they have been issued as "fully paid."

Transfers.

Although in itself a most important matter, the question of transfers is relatively unimportant, in the sense that it in no way affects the financial position of the company; it is

merely a registration of a change of the ownership of certain shares, and therefore does not affect the financial books. It does, however, affect the Share Ledger, and the proper entry will be, of course, to debit the transferor with the amount of the shares transferred, and to open a new account in the name of the transferee, crediting him with the amount. These entries are passed through a Journal called the "Transfer Journal," or "Register of Transfers," which is only used in connection with the Share Ledger; it does not deal with money as such, but merely records the particulars of the shares transferred. The following is a good form of Transfer Journal :—

REGISTER OF TRANSFERS (ORDINARY SHARES). (1)

Date when Transfer lodged	No. of Transfer Deed	No. of Certificate received	Transferor's		Shares transferred			Total amount paid up	Nos. of Certificates		Consideration	Transfer passed		Transferee's			
			Register Fo.	Name	No. of Shares	Distinctive Numbers			To Transferee	To Transferor for Balance		Date	No. of Minute	Register Fo.	Name	Address	Occupation
						From	To										
								£			£	1897					
1897 Feb. 28	1	1	1	J. Adams	100	1	100	100	8	9	105	Feb. 28	67	9	Jas. Cloud	36 Black-St. E.C.	Civil Servant

Forfeiture of Shares.

Most Articles of Association provide that if any call is in arrear for a certain number of days, after due notice has been given to the shareholder it is competent for the directors, by resolution, to declare those shares forfeited to the company, without prejudice to any rights that the company may have against the shareholder in respect of such calls. It may be mentioned, however, that it is desirable that the resolution should explicitly state that the required notice has been given and not complied with, and that "shares Nos. ———, standing in the name of ———, be and are hereby forfeited." There are various methods of dealing with the entry of forfeitures in the books, but the one which is suggested as being the best and simplest is the following :—

In the Share Ledger, by means of the Transfer Journal, transfer the shares in question to the "Forfeited Shares Account." When re-sold, transfer them from this account to the account of the purchaser in the usual way. In the General or Private Ledger pass, by means of the Journal, an entry debiting the Share Capital Account and crediting "Forfeited Shares Account" with the amount paid-up upon those forfeited shares. Until the shares are re-issued the balance of the Forfeited Shares Account should be separately stated upon the liabilities' side of the Balance Sheet; but when the shares have again been disposed of, the balance of the Forfeited Shares Account may, if thought fit, be credited to Reserve Fund, or the Profit and Loss Account. Directors may, however, re-issue such shares at a discount not exceeding the amount originally paid up thereon; and when advantage is taken of this power, the amount of such discount must be made good to Share Capital Account out of Forfeited Shares Account.

Issue of Shares at a Premium.

A company's shares cannot legally be issued at a discount, but they can be (and sometimes are) issued at a premium.

When this is so, the prospectus usually states the amount of the premium at which they are issued, and which of the instalments payable are in respect of the premium. Almost the invariable practice is for the premium to be paid in advance, along with the first deposit; but whether this is so or not, the actual Bookkeeping entries assume a very simple form. There is no occasion to record anything in connection with the premium in the Share Ledger. The Applications and Allotments Sheets will contain a separate column for the amount of the premium, as distinguished from the deposit, and the total of the premiums upon those shares which are allotted will be transferred from the credit of the Shareholders' Account (or the Applications and Allotments Account, as the case may be) to the credit of a "Premium on Shares Account," or perhaps more conveniently direct to the credit of the Reserve Fund, which is the only place to which these premiums on shares can ultimately be properly taken, inasmuch as they are not profits which are properly available for distribution among the shareholders.

Debentures.

The above procedure will in all cases apply equally as well to the issue of debentures, instead of shares. It is true that the persons who apply for debentures do not place themselves in the position of being members of the company; on the contrary, they merely lend the money upon certain terms and in almost all cases they have, as a security for the due repayment of these monies, a floating charge upon the undertaking, by virtue of which—under certain circumstances provided for in the form of debenture or in the trust deed, if there be one—it is competent for them to apply to the Court to appoint a Receiver, who may take possession of the undertaking, when the "floating" charge "crystallises" into a "fixed" charge, and they become entitled to the property which has passed into the hands of the Receiver, in preference (with a few quite unimportant exceptions) to all other persons.

In the meantime the Bookkeeping entries are practically identical with those which have been mentioned in respect of shares, the only real difference being that, unlike shares, it is quite competent for a company, if it thinks fit, to issue debentures at a discount; it is therefore necessary to consider what Bookkeeping entries are necessary when this course is pursued. The position of affairs under these circumstances is really as follows — that, if the entries have been passed through in the manner already described, then the credit balance of the Debentures Account in the Private Ledger will be for the nominal or face value of the debentures, and a corresponding amount will have been debited to the Debenture-holders' Account. If, therefore, the debenture-holders have paid less than the face value for their bonds it will naturally follow that this latter account will show a debit balance equal to the amount of discount allowed upon the issue, assuming that (except in respect of the discount) all payments due from debenture-holders have been made in full. To correct this it is necessary to open an account in the Private Ledger called "Cost of Issue of Debentures Account," and debit this with the amount of discount allowed, crediting the Debenture-holders' Account with a like amount, and so balancing the latter.

Any commission paid to underwriters, or otherwise, in respect of the issue of debentures may also be debited to this account, which, unless the debentures are redeemable, may fairly be treated as an asset and brought into the Balance Sheet by deducting it from the amount shown under the head of "Debentures" upon the liabilities' side. When this course is pursued it is desirable, however, that the nominal amount of the debentures should also be stated, so that no one may be deceived upon the matter.

Treatment of Redeemable Debentures.

In the case of redeemable debentures, however, it is necessary to remember that these debentures will, no

doubt, be redeemable at par.—that is to say, at a higher price than that which the company received for them—and it will therefore then be necessary that the difference between the two prices (which is a loss which will have to be borne by the company) should be provided for by a charge to Profit and Loss Account, which may, of course, be spread over the term covered by the debentures issued. This same reserve for loss upon the redemption of the debentures must also be made, even if they have been issued at par, if they are afterwards redeemable at a higher price.

The next point that claims attention is with regard to the necessary entries in the books when debentures are actually redeemed. In the Debenture Ledger it is desirable that a "Debentures Redeemed Account" should be opened, and, through the Debenture Transfer Journal, all redemptions should be transferred from the holders' accounts to this account. In the financial books of the company the cash paid upon the redemption of debentures should be posted to the debit of a "Debentures Redeemed Account"; any provision which it may be necessary to make against profit and loss, in the case of debentures being redeemed at a higher price than originally received for them, must also, of course, be credited to this account, and the balance should be periodically transferred to the debit of the Debentures Account, thereby gradually reducing the amount to the credit of the latter.

Books required to be kept by Companies.

The Companies Act, 1862, requires that certain statistical books should be kept by every company registered under that Act. There are no financial books prescribed, and therefore it is only indirectly that the point concerns us at the present time; but, for the sake of completeness, it

seems desirable to refer to it. These books are as follows:—

Register of Members;

Annual List of Members and Summary;

Register of Mortgages (which must include debentures, if secured by a charge on the assets);

Minute Book;

and, in the case of companies limited by guarantee, a Register of Directors and Managers.

For the reason, however, that none of these books in any way affect the financial accounts of the company, it is unnecessary to deal with them in detail here, beyond saying that, for practical purposes, it is usual to provide that the Share Ledger shall contain such particulars as are required to be contained in the Register of Members, so as to obviate the necessity for keeping a separate register.

Increase or Reduction of Capital.

Upon the capital of a company being increased by the issue of new shares, the entries necessary in the books follow the ordinary course pursued upon the allotment of the original shares, and there is no difference whatever in the procedure. But in the case of the reduction of a company's capital, the procedure is that all the shares (or all the shares of a certain class) are considered to be of a less value than was originally the case, and certain entries become necessary in the financial books to give effect to this consideration. These may be recorded as follows:—In the Share Ledger the simplest and most convenient way is to procure a rubber stamp, briefly stating the effects of the resolution reducing the capital, and to impress it upon every page affected. The share certificates should also be called in and similarly stamped. In the General Ledger note the reduction on the heading of the Share Capital Account, and if the reduction

does not affect the paid-up capital no further entry is required. If, however, the reduction has been made for the purpose of writing off a balance to the debit of Profit and Loss Account, or Profit and Loss Apportionment Account, as it is sometimes called, then a Journal entry must be made, debiting Share Capital Account and crediting the first-named account with the total amount of such reduction of the paid-up capital.

CHAPTER IX.

Reserves and Reserve Funds.

IT need hardly be stated that, in the case of a private trader, the prudent man is he who does not spend the whole of his available profits, but leaves a portion thereof in the business to gradually accumulate; so that, in course of time, he becomes very much richer than he was at first. There is, of course, a limit to the practical advantage of leaving funds in any one business, and that limit is reached when it is found that the funds cannot be usefully employed in the business when left there; but, within a considerable margin, it is practicable in most instances to increase the profits of a business by increasing the amount of working capital, and particularly so in the case of joint-stock companies as contrasted with individual enterprise.

In the case of a firm or sold trader, when unforeseen contingencies arise that make temporary demands for further working capital, if the business is in other respects a sound one, the proprietors will always put their hands in their pockets and find further working capital, or if necessary borrow it for the sake of the business; but the same cannot be said of shareholders. Whenever contingencies arise which make sudden demands upon a company for further cash, it will almost invariably happen that this is the particular moment when it is impossible for the company to issue further shares, except, perhaps, upon very disadvantageous terms, and although debentures are sometimes resorted to for this purpose, it may easily happen that in a perfectly sound company the issue

of first debentures has already been made, and second debentures are a security that does not usually find favour with investors.

That being so, a company is placed at a disadvantage, as contrasted with a private undertaking, in that it is more difficult for a company than for a private firm to find extra working capital on an emergency. It is therefore very much more important that it should retain within its control a certain amount of reserve capital, to be used should occasion arise. Therefore, in the case of a company even more than in the case of a private individual, it is very desirable that the whole of the profits should not be taken out of the business.

Definition of Reserve Fund.

It would appear that it is not generally appreciated what a Reserve Fund really is. A Reserve Fund is neither more nor less than an accumulation of profits which might have been distributed by the company in the form of dividends, but which it has been considered more expedient to retain as a provision against unforeseen contingencies. Very commonly it will be found that companies build up what they *call* a Reserve Fund to meet losses which will eventually be found to have arisen in respect of bad debts, depreciation, and the like; but it seems desirable to point out in the strongest possible terms that these are not Reserve Funds at all, and the test of this is that they have not been accumulated out of profits. The Reserve Fund appears in the books of the company as a credit balance in the Ledger, and the corresponding debit—if it is a *true* Reserve Fund—will have been made against the balance of Profit and Loss Appropriation Account. If it is *not* a true Reserve Fund, the corresponding debit will be against Profit and Loss Account. To fully appreciate this difference it is, of course, necessary to consider what are profits available for dividend, and for that purpose the reader may

usefully refer to a pamphlet upon that subject by the author of this work* ; but for present purposes it is thought that the above distinction will be found sufficient.

Investment of Reserve Funds.

The next question that arises is this: Assuming that it is desirable not to distribute the whole of one's profits, but to set aside a certain portion each year as a Reserve Fund, what is to be done with the amount so set aside? It need hardly be pointed out that, when it has been decided to set aside a certain portion of the profits available for dividend as a Reserve Fund, the only Bookkeeping entry that is necessary, or even possible, is one debiting the Profit and Loss Appropriation Account and crediting the Reserve Fund with the amount which it is decided to set aside. This is really all that is necessary to do in connection with creating a Reserve Fund, and it is all that it is possible to do. On the other hand, there is a general impression—and particularly with that part of the public which is not very familiar with accounts—that a Reserve Fund is not "real" unless one can point to certain specific investments outside the business as representing it. It is desirable, therefore, to point out very clearly that there is absolutely no connection whatever between a Reserve Fund and any assets which may be said to represent it. A Reserve Fund is neither more nor less than undivided profits, and it is impossible to say it is specifically represented by any asset.

It will generally be admitted that, when a company has had a good year and distributed dividends to a smaller extent than its accumulated profits, the balance of Profit and Loss Account which has to be carried forward is available in the sense that, should the next year result in a loss, that balance will be the first item to be wiped out, and that it will be wiped out automatically. Now, the second item to be wiped out by a loss—in the event of this balance,

* *Profits Available for Dividend*, by Lawrence R. Dicksee, M.Com., F.C.A. (Gee & Co., London.)

brought forward from previous years on Profit and Loss Account being insufficient—is the Reserve Fund. In the event of there being a loss, which the balance brought forward on Profit and Loss Account is insufficient to cover, the next account to which this loss must be debited is the Reserve Fund. It is a contradiction in terms to state, in the form of a Balance Sheet, a position of affairs showing a deficiency or a debit balance on Profit and Loss Account, and a surplus or a credit balance on Reserve Fund. It is absolutely impossible that there should be both a surplus *and* a deficiency; that being so, it follows that the mere investment of a Reserve Fund affords absolutely no security for its continued existence; it can only exist so long as the company continues not to make losses, and no longer. It is hoped that a proper appreciation of these facts will effectually dispose of the impression, which is so very current, that a Reserve Fund is no real Reserve Fund unless it is represented by investments.

Desirability of Investing Reserve Funds.

On the other hand, it is well to admit that, although the Reserve Fund itself may have to be wiped off because a company has had a bad year, or a series of bad years, this in itself is no reason why a company, which does not distribute all its profits, should not invest the amount which it reserves in outside securities, so as to distribute its risk. Of course, if all the resources of a company are confined to the particular business engaged in, the shareholders have all their money embarked upon a single venture, and if anything goes wrong with it, they are in a very bad position. If, on the other hand, part of their money is invested in outside securities of a first-class character, they have always a certain "nest-egg" to fall back upon, that can be realised in times of need, which—as has been pointed out—is the time when it is most difficult to raise further capital by any other means. For this reason it is very desirable, when a company can afford to do so, that

its surplus capital should be separately invested; but this is quite another thing from saying that a Reserve Fund is not a "real" one, until it is invested outside the business; and it is hoped that the distinction has now been made sufficiently clear.

Sinking Funds.

The next point that claims attention is the distinction between a Reserve Fund and a Sinking Fund. A Reserve Fund has already been defined as being a sum set aside out of profits to meet unknown contingencies. A Sinking Fund, on the other hand, is a sum set aside to meet *known* contingencies, *i.e.*, the redemption of liabilities like debentures, mortgages, &c. The distinction may appear to be a fine one, but it is less so than appears at first sight. A Reserve Fund is a purely prudential measure, which it is thought desirable to put aside so that, in the event of the company's business being less profitable at a later stage, there may be something to fall back upon to tide over the bad time; and it is for this purpose that a Reserve Fund is maintained. A Sinking Fund is set aside because it is known that, at some future time, a sum of money will be required, not for the sake of making good a wasting of assets or loss of any description, but in order to pay off a liability which will become due at some future date, such as when debentures or mortgages which have been lent for a definite time, mature, and it is desired to redeem them out of the existing funds, rather than to seek a fresh advance elsewhere. The essence of the distinction comes in in this way—that, whereas it is perfectly proper, and, indeed, financially desirable, that the Reserve Fund of a company which is short of working capital should be kept in the business—so as to increase the available amount of working capital and the consequent profits—it is essential that a Sinking Fund should be invested in securities outside the company, so that when the time comes that the amount is required to pay off the liabilities, it may be readily realised without any embarrassment to the business.

Depreciation.

This is a very large question indeed, and one which cannot be at all fully dealt with in the limited space available here, nor is that necessary, inasmuch as the author has already considered the subject very exhaustively elsewhere.* It seems desirable, however, to point out that the amount to be written off for depreciation is not—as some people seem to think—a provision made out of profits to meet a loss which, at some future date, will be ascertained; but rather one of many instalments which, after a careful calculation, it is believed will eventually aggregate to the value of certain assets by the time those assets become useless to the company. That is to say, the amount set aside for depreciation, although in a sense an estimate, is not an arbitrary amount, but one of many instalments which, taken altogether, are expected to eventually accumulate to the capital value of the asset which is depreciating.

This may be put another way. Such assets of a company as are of a wasting nature, either by effluxion of time, or by wear and tear, or by the fact that continual invention is reducing the value of existing assets by decreasing the demand for them in the market, are *continually* becoming of less value, and this quite irrespective of whether the company which owns them is making a profit or a loss. On the other hand, the precise amount of such shrinkage in value from time to time cannot be accurately ascertained; and it is not altogether desirable—even if possible—that the actual loss from time to time should be put down, as this might have the effect of causing serious fluctuations in profit without any corresponding advantage. It is, therefore, generally conceded that the better method of dealing with the matter is that the "life" of the asset in question should, as far as possible, be ascertained; and, having been ascertained, its original value should be spread over the estimated

**Depreciation, Reserves, & Reserve Funds*, by Lawrence R. Dicksee, M.Com., F.C.A. (Gee & Co., London.)

term of its life, and a proportionate amount written off during each year.

Method of Writing off Depreciation.

In this connection it may be stated that, for all ordinary purposes, assets are written down by means of a percentage, which may be either a fixed percentage upon the original value, or a fixed percentage upon the value standing to the debit of the assets account at the commencement of the year under review. There is a very material distinction between these two methods. Thus, supposing it is estimated that the life of a machine is twelve years, and that at the end of that time its value will be 10 per cent. of the original value; then, if the system be adopted of writing off a fixed percentage upon the original cost, 7½ per cent. will be the proper rate for depreciation; on the other hand, if the system be adopted of writing the percentage off the reducing balances, it will be necessary that the depreciation should be at the rate of 17½ per cent. It will be seen that the latter method throws a very much heavier instalment upon the earlier years, whereas the former keeps the instalments for depreciation always uniform. But it must be remembered that, in addition to depreciation, there are always necessary repairs in connection with machinery, and these naturally fall with increased heaviness upon the latter years of a machine's life; so that, upon the whole, probably the system of writing the depreciation off the reducing balances effects a more equitable apportionment of repairs and depreciation taken together throughout the different years. It is, however, very important that the distinction between the rate per cent. which must be adopted in the two cases should not be overlooked.

Depreciation of Leases.

With regard to the depreciation of leases it is not usual to adopt the fixed percentage, unless the term of the lease is very short, because it is usually considered desirable

that the effect of the interest upon the capital involved should also be taken into account. When a premium is paid for a lease it is because the actual annual value of the property is believed to be greater than the rent payable under the terms of the lease. That is to say, the premium is the "present value" of a portion of the rent paid in advance. The amount of the premium should therefore be reduced annually by transferring a fixed instalment to Rent Account, or, if thought desirable, it may be shown under a separate heading as Depreciation. But the amount of capital invested in the lease is continually decreasing, and whatever capital there is invested in it from time to time should be bearing interest, and would be bearing interest if invested in other ways; therefore it is necessary that the amount to be debited to Profit and Loss Account for excess rent or depreciation should be such that, when credited to the Lease Account, it will reduce that account to zero by the time the lease expires, after the Lease Account has been debited and Interest Account credited with a percentage—say 4 per cent.—upon the debit balance of the Lease Account from year to year. It is unnecessary to go into the question as to how these calculations are made—in practice they are usually arrived at by the use of tables which are specially constructed for the purpose; but the Bookkeeping entries are that the Lease Account is debited and Interest Account credited with interest upon the debit balance of the Lease Account at the commencement of each year, and Lease Account is credited and Profit and Loss Account debited with a uniform sum written off by way of depreciation, or rent paid in advance. Before dismissing this subject, however, it may be mentioned that most leases contain covenants by which the lessee is required to leave the premises in a proper state of repair, and these usually involve a considerable outlay at the close of a lease. That outlay will vary, according to circumstances, from, perhaps, six months' to two years' rent. It

is desirable, therefore, that the actual term of the lease (for the purpose of considering the amount to be written off for depreciation) should be taken as something between six months and two years *less* than the actual unexpired term. The result of this will be that the Lease Account will be reduced to zero that length of time before the lease actually expires, and during the remainder of the period the Profit and Loss Account can be charged with instalments for depreciation at the same rate as before, which can be credited to a Reserve Account (or a Sinking Fund) created to meet the cost of dilapidations when the liability actually accrues.

CHAPTER X.

Profits Available for Dividend.

WITH regard to the question of what profits are available for dividend, this is a matter which is almost entirely governed by the articles of association of each individual company. There is practically nothing upon the subject in the Companies Acts beyond a general statement that the capital of a company must not be returned to the shareholders. It is only in Table "A," the *pro formâ* articles of association appended to the Act of 1862, that it is stated that "no dividend shall be payable except out of the profits arising from the business of the company." Most articles of association contain some similar clause to this, but on the other hand some companies expressly provide that, before arriving at profits available for distribution, it is *not* necessary that any reserve should be made for the wasting of the capital assets of the company, and it has been held by the Court of Appeal that when such a clause is to be found in a company's articles of association it is unnecessary for provision to be made for depreciation. That, at least, would appear to be the correct reading of these decisions; but they are by no means clear, and it seems doubtful whether the Judges who gave them were really sufficiently *au fait* with the position of affairs to give anything more than a decision upon the precise points which were placed before them; and it is, perhaps, even more doubtful whether they wished to give decisions which were of general application. In any case, there would appear to be this important reservation, namely, that a company cannot pay dividends under any circumstances which will have the effect of leaving its creditors out in the

cold; but so long as the creditors are not defrauded, apparently, the Courts will not interfere to prevent profits being distributed among shareholders which do not provide for the replacement of wasting capital. How far this attitude of the Courts may be taken as a statement of the law upon the subject, and how far it is due to a disinclination to interfere with the *boná fide* discretion of directors and shareholders, it is, however, very difficult to say. Be it as it may, however, no decision of the Court can really alter what are, and what are not, net profits; and, whatever may be the dividend declared, accounts should not be published to shareholders stating as "net profits" something which does not provide a charge against profits for any shrinkage in the value of assets which has actually occurred.

On the other hand, it is practically impossible in many cases to put a definite value upon the fixed assets of the company, which are practically of a permanent character; that is to say, so long as a reasonable basis of depreciating the assets is arrived at and continued in good faith, it is quite unnecessary to take into consideration any possibility of the fixed assets of a company *fluctuating* in value from time to time. With regard to the floating assets, however, it is important that the actual values at the time should be taken into consideration, as these assets are only held by the company for the purposes of their being converted into cash as soon as possible, and therefore it is their cash values that should be taken, and not their cost. It is, however, beyond the secretary's province to consider these questions in detail; they belong primarily to the directors and the auditors, both of whom have to independently arrive at a *boná fide* opinion upon the subject, and to place their views before the shareholders, who are the final arbitrators upon the point.

Declaration of Dividends.

The declaration of dividends is a question which is governed by the articles of association of each individual

company. Without articles providing for the declaration and payment of dividends, it would seem that none could be declared; but this is perhaps a point of only academical interest, inasmuch as this is one of the things which is always provided for by articles of association, and is generally regarded as one of the most important. In the absence of special provisions in the articles, *a fortiori*, interim dividends may not be declared by the directors; but when the articles give the necessary power, directors may declare an interim dividend, although they run a serious risk if they do so without taking adequate steps to satisfy themselves that they are justified in so doing by the position of the company's finances and accounts. What may be called *the* dividend, however, has usually to be declared by a vote of the shareholders in general meeting; but many articles provide that the shareholders shall not be allowed to vote a larger dividend than that recommended by the directors. It is difficult to say what this "recommendation" of a dividend by the directors actually means, nor is it really necessary to go into this question; it may, however, probably be taken that it means nothing more than that the directors have gone into the accounts—which, as already stated, are the accounts of the directors—and have satisfied themselves that these accounts justify the declaration of a dividend at the rate recommended. The auditor, as has been decided in several recent cases, has nothing whatever to do with the declaration of the dividend, or the recommendation of it; all he has to do is to satisfy himself that the accounts submitted to the shareholders show the true position of affairs, so far as it is possible for him to ascertain that position by the exercise of reasonable care and skill. An ordinary resolution is all that is necessary for the declaration of a dividend, and in practice it is usually combined with the resolution adopting the accounts and the directors' report.

Payment of Dividends.

With regard to the actual payment of the dividend, the following examples show the form of the Profit and Loss Apportionment Account, and the Dividend Account in the Private Ledger, and also the Journal entries which are necessary to give effect to the various transactions :—

Dr. PROFIT AND LOSS APPORTIONMENT ACCOUNT. *Cr.*

Date	Particulars	£ s d	£ s d	Date	Particulars	£ s d
1897				1896		
March 3	To Transfer to Reserve Fund		2,500 0 0	March 5	By Balance brought forward from last account ..	478 1 2
"	" Dividend Account, viz. :—			Dec. 31	" Balance transferred from Profit and Loss Account	12,962 10 9
	£50,000 Pref. Shares at 7% ..	3,500 0 0				
	£50,000 Ord. do. at 12½% ..	6,250 0 0				
			9,750 0 0			
"	" Balance carried forward		1,190 11 11			
			£13,440 11 11			£13,440 11 11
				1897		
				March 4	By Balance brought forward	1,190 11 11

Dr. DIVIDEND ACCOUNT. *Cr.*

Date	Particulars	£ s d	Date	Particulars	£ s d	£ s d
1897			1897			
March 3	To Income Tax	325 0 0	March 3	By Profit and Loss Apportionment Account :—		
"	" Cash	9,425 0 0		7% on £50,000 Pref. Shares ..	3,500 0 0	
				12½% on £50,000 Ord. do. ..	6,250 0 0	
						9,750 0 0
		£9,750 0 0				£9,750 0 0

JOURNAL 1897.

	Dr. £	s	d	Cr. £	s	d
MARCH 3rd						
Profit and Loss Apportionment Account	2,500	0	0			
To Reserve Fund				2,500	0	0
(Being the amount transferred to latter account by resolution of General Meeting held this day.)						
Profit and Loss Apportionment Account	9,750	0	0			
To Dividend A/c (Pref. Shares at 7%) ..				3,500	0	0
" Do. (Ord. do. at 12½%) ..				6,250	0	0
(Being the aggregate amount of dividends voted by Shareholders at General Meeting held this day.)						
Dividend Account	325	0	0			
To Income Tax Account				325	0	0
(Being 8d. in the £ Income Tax upon the aggregate amount of dividends declared this day.)						

It is quite unnecessary that any detail as to the payment of the dividends to individual shareholders should appear in the Private Ledger. The best method is to draw one cheque for the whole amount of the dividend, and to pay it into a separate banking account, against which cheques — or warrants—for the amount of each dividend are issued; so that from time to time the balance on this separate banking account will show the amount of dividends unclaimed. On the other hand, if there are very few shareholders it may seem hardly worth while to go to this length; and in that case the simplest way is to enter up the individual cheques for dividend upon the credit side of the Cash Book in an inner column, and extend the total, which total alone will be posted to the Dividend Account in the Private Ledger.

Income Tax.

In this connection it is convenient to consider another important point, namely, the question of income tax. As the reader is no doubt aware, a company is assessed for income tax upon the average amount of its profits, but it is quite competent for the company to deduct income tax from each dividend paid, and in the case of interest on debentures it is

only right and proper that it should do so. The same remark applies to the dividend upon preference shares, when the full amount of such dividend is being paid to the shareholders. It is quite optional whether the dividend upon ordinary shares should be paid subject to deduction of income tax or not; but the term "free of income tax" is somewhat misleading in this connection, inasmuch as in every case the company has already paid tax upon the profits earned, and a further tax cannot be levied upon the individual shareholders. It is merely a question whether they are to be paid a dividend of, say, 10 per cent. gross, or 10 per cent. less income tax. The latter, of course, takes a slightly smaller amount to pay the dividend than the former, and there is nothing else in the distinction.

The necessary Journal entries to give effect to these deductions of tax are also shown in the *pro formâ* accounts given above, and it is thought that they will be found intelligible. The dividend list (which has no direct connection with the books) should be prepared with three cash columns showing the gross dividend, the amount of the income tax, and the net dividend payable to each shareholder.

The Treatment of Losses.

The last point to be dealt with here is the treatment of losses. In the case of individual traders or private firms, the debit balance on Profit and Loss Account, representing the loss on the year's business, is transferred to the debit of the various partners' Capital Accounts in the same proportions as they would have been entitled to profits, had any been earned. It is impossible, however, to adopt this treatment in the case of a company; because, by a legal fiction, the capital of a company is supposed to be "fixed." It is therefore necessary to leave the balance to the debit of the Profit and Loss Account, so as to be brought down to the debit of the next year's account, and no further dividends ought to

be paid until this debit balance has been wiped out by subsequent profits, unless indeed there is a Reserve Fund to which recourse may be had for the purpose of writing off the debit balance, or unless the company's capital be "reduced."

Conclusion.

In such a work as the present, when a very large subject has to be compressed into a comparatively small space, it is inevitable that many points which are of considerable importance should have been treated only lightly, and others even omitted altogether. It is hoped, however, that this volume will not be without value to the reader, and that even those who commenced it with but a slight knowledge of Bookkeeping generally will now feel that they at least know enough to enable them to undertake some of the very important and onerous duties that fall upon company secretaries.

APPENDIX A.

At the close of the series of lectures referred to in the preface, the author set the following examination paper to those members who had regularly attended the course.

It is thought that the questions, together with the correct answers thereto, will be found of interest to the reader. They are, therefore, added to the present work in the form of an appendix.

THE INSTITUTE OF SECRETARIES.

Session 1896-97.

Instructions to Candidates.

(*a*) ***Write only on one side of the paper, and leave a side margin.***

(*b*) ***Number the pages of answers, placing your name in the left-hand top corner of each page and the number of the page in the right-hand top corner.***

(*c*) ***You may answer the questions in any order you please, but put the number of the question in the margin against each answer.***

BOOKKEEPING.

Q. 1.—From the following Trial Balance prepare Trading Account, Profit and Loss Account, and Balance Sheet:—

TRIAL BALANCE, 31st December 1896.

	Dr. £	s	d	Cr. £	s	d
Ordinary Share Capital				10,000	0	0
Preference do.				10,000	0	0
Stock on hand (1st January 1896)	12,000	0	0			
Purchases	40,000	0	0			
Wages	7,500	0	0			
Cash at Bank	4,500	0	0			
Bills Receivable	1,000	0	0			
Bills Payable				7,000	0	0
Sundry Creditors				5,600	0	0
Sales				50,000	0	
Sundry Debtors	10,500	0	0			
Machinery	4,000	0	0			
Rent of Factory	500	0	0			
Rent of Warehouse and Offices	250	0	0			
Salaries	750	0	0			
Directors' Fees	500	0	0			
Auditor's Fee	50	0	0			
Discounts	150	0	0			
General Expenses	1,000	0	0			
Profit and Loss Account (1st January 1896) ..				1,100	0	0
Dividend (paid 10th April 1896)	1,000	0	0			
	£83,700	0	0	£83,700	0	0

Provide £200 for depreciation of machinery, £105 for bad aud doubtful debts, and £200 for wages accrued due. The stock on hand on 31st December 1896 was £13,500.

A. 1.—

Dr. TRADING ACCOUNT for the Year ended 31st December 1896. *Cr.*

	£	s	d		£	s	d
To Stock on hand, 1st January 1896	12,000	0	0	By Sales	50,000	0	0
" Purchases	40,000	0	0	" Stock on hand, 31st December 1896	13,500	0	0
" Wages	7,700	0	0				
" Rent of Factory	500	0	0				
" Gross Profit, carried to Profit and Loss Account ..	3,300	0	0				
	£63,500	0	0		£63,500	0	0

Dr. PROFIT AND LOSS ACCOUNT for the Year ended 31st December 1896. *Cr.*

	£	s	d	£	s	d		£	s	d
To Rent of Warehouse and Offices	250	0	0				By Gross Profit transferred from Trading Account ..	3,300	0	0
" Salaries	750	0	0							
" General Expenses	1,000	0	0							
				2,000	0	0				
" Discounts	150	0	0							
" Bad and Doubtful Debts	105	0	0							
" Depreciation of Machinery	200	0	0							
				455	0	0				
" Directors' Fees	500	0	0							
" Auditor's Fee	50	0	0							
				550	0	0				
" Balance, being Net Profit for the Year ..				295		0				
				£3,300	0	0		£3,300	0	0

BALANCE SHEET, 31st December 1896.

LIABILITIES.	£ s d	£ s d
Nominal Capital..	20,000 0 0	
Subscribed Capital, viz., Ordinary Shares	10,000 0 0	
Preference do.	10,000 0 0	
		20,000 0 0
Bills Payable		7,000 0 0
Sundry Creditors		5,800 0 0
Profit and Loss Account, Balance 1st January 1896	1,100 0 0	
Less Dividend paid 10th April 1896 ..	1,000 0 0	
	100 0 0	
Add Net Profit for the Year (as above)..	295 0 0	
		395 0 0
		£33,195 0 0

ASSETS.	£ s d	£ s d
Machinery	4,000 0 0	
Less Depreciation	200 0 0	
		3,800 0 0
Stock-in-Trade		13,500 0 0
Bills Receivable		1,000 0 0
Sundry Debtors	10,500 0 0	
Less Reserve for Bad and Doubtful Debts	105 0 0	
		10,395 0 0
Cash at Bank		4,500 0 0
		£33,195 0 0

Q. 2.—The following Balance Sheet and Profit and Loss Account have been prepared from the books of the British Motor Car Company, Lim. These books included Bought, Sold, and Private Ledgers, each of which was "self-balancing." Show the Trial Balance of each separate Ledger as it would have appeared in the books before any provision had been made for bad and doubtful debts or depreciation.

BALANCE SHEET, 31st December 1896.

Liabilities.	£ s d	£ s d	Assets.	£ s d	£ s d
Capital Account, 100,000 Shares of £1 each	100,000 0 0		Buildings, Plant, Machinery, &c.	60,000 0 0	
Less Calls in arrear	462 0 0		*Less* Depreciation	1,200 0 0	
		99,538 0 0			58,800 0 0
Trade Creditors, viz., A.	540 0 0		Debtors, viz., G.	47 10 0	
B.	50 0 0		H.	12 0 0	
C.	75 0 0		I.	160 10 0	
D.	920 0 0		J.	21 0 0	
E.	55 0 0		K.	110 0 0	
F.	62 0 0			351 0 0	
		1,702 0 0	*Less* Provision for Bad and Doubtful Debts	36 0 0	
Profit and Loss Account		18,060 0 0			315 0 0
			Stock-in-Trade		45,645 0 0
			Cash		14,540 0 0
		£119,300 0 0			£119,300 0 0

Dr. PROFIT AND LOSS ACCOUNT for the Year ended 31st December 1896. *Cr.*

	£	s	d		£	s	d
To Rent, Salaries, and General Expenses	2,500	0	0	By Gross Profit, as per Trading Account	22,000	0	0
" Directors' Fees	1,000	0	0	" Balance from last year's Account	796	0	0
" Depreciation	1,200	0	0				
" Bad Debts	36	0	0				
" Balance	18,060	0	0				
	£22,796	0	0		£22,796	0	0

A. 2.

THE BRITISH MOTOR CAR COMPANY, LIM.

BOUGHT LEDGER TRIAL BALANCE, 31st December 1896.

	Dr. £ s d	Cr. £ s d
A.		540 0 0
B.		50 0 0
C.		75 0 0
D.		920 0 0
E.		55 0 0
F.		62 0 0
Private Ledger Adjustment Account	1,702 0 0	
	£1,702 0 0	£1,702 0 0

THE BRITISH MOTOR CAR COMPANY, LIM.

SOLD LEDGER TRIAL BALANCE, 31st December 1896.

	Dr. £ s d	Cr. £ s d
G.	47 10 0	
H.	12 0 0	
I.	160 10 0	
J.	21 0 0	
K.	110 0 0	
Private Ledger Adjustment Account		351 0 0
	£351 0 0	£351 0 0

THE BRITISH MOTOR CAR COMPANY, LIM.

PRIVATE LEDGER TRIAL BALANCE, 31st December 1896.

	Dr. £ s d	Cr. £ s d
Share Capital Account		100,000 0 0
Sundry Shareholders	462 0 0	
Bought Ledger Adjustment Account		1,702 0 0
Sold Ledger Adjustment Account	351 0 0	
Buildings, Plant, Machinery, &c.	60,000 0 0	
Stock-in-trade	45,645 0 0	
Cash	14,540 0 0	
Rent, Salaries, and General Expenses	2,500 0 0	
Directors' Fees	1,000 0 0	
Trading Account		22,000 0 0
Profit and Loss Account		796 0 0
	£124,498 0 0	£124,498 0 0

Q. 3.—Explain how the following Trial Balance of the books of a branch in New York should be incorporated into the head office accounts :—

TRIAL BALANCE, 31st December 1896.

	Dr. $	c.	Cr. $	c.
Head Office Account			20,000	00
Remittance Account..	5,000	00		
Cash	4,260	00		
Debtors	7,500	00		
Creditors			1,000	00
Fixtures and Fittings	1,740	00		
Stock (on 1st January 1896)	4,650	00		
Purchases	16,210	00		
Sales			28,430	00
Trade Expenses	4,600	00		
Discounts			250	00
Bills Receivable	5,720	00		
	$49,680	00	$49,680	00

A. 3.—The answer to this question depends entirely upon the rate of exchange ruling during the year under review, but assuming that the rate was 50 when the capital expenditure was incurred, was 49½ on 31st December 1896, and averaged 49⅝ throughout the year, and assuming further that the remittance of $5,000 to the head office realised £1,036 9s. 2d., then the Trial Balance should be converted into sterling as follows :—

TRIAL BALANCE, 31st December 1896.

		£ s d	£ s d
A.	Head Office Account		4,166 13 4
B.	Remittance Account	1,036 9 2	
C.	Cash	978 12 6	
C.	Debtors	1,546 17 6	
C.	Creditors		206 5 0
	Fixtures and Fittings	366 13 4	
A.	Stock (on 1st January 1896)	963 18 2	
E.	Purchases	3,311 15 1	
E.	Sales		5,878 9 11
E.	Trade Expenses	951 2 11	
E.	Discounts		51 13 10
C.	Bills Receivable	1,179 15 0	
	Exchange Account..	67 18 5	
		£10,303 2 1	£10,303 2 1

A. At actual figure in head office books on 1st January 1896.

B. " " received by head office.

C. " 49½, the actual rate on 31st December 1896.

D. " 50, the actual rate when expenditure incurred.

E. " 49⅝, the average rate during the current year.

NOTE.—The Stock on the 31st December 1896 would be brought into the accounts at 49½.

There would be accounts in the head office books as follows:—Branch Office Account, Dr., £4,166 13s. 4d.; Remittances, Cr., £1,036 9s. 2d. These would be treated as Adjustment Accounts, and the above Trial Balance incorporated in the head office books upon that basis.

Q. 4.—The London Engineering Company, Limited, acquires on 1st April 1897 from William Brown the following property:—

Stock-in-trade	£10,000
Machinery	20,000
Freehold Buildings (subject to a Mortgage of £15,000)	47,500
Goodwill and Patent Rights	22,500
	£100,000

Payment is made on the same day as follows:—

Cash	£20,000
Debentures	50,000
Preference Shares	10,000
Ordinary Shares	10,000
Deferred Shares	10,000
	£100,000

You are required to explain exactly how the above arrangement may be carried into effect, and what entries should be made in the books of the company.

A. 4.—Upon the conveyance of the various assets named being executed, an entry to the following effect would be passed through the company's Journal and posted to the Private Ledger in the usual way:—

JOURNAL 1897.

	Dr. £	s	d	Cr. £	s	d
1st April						
Stock	10,000	0	0			
Machinery	20,000	0	0			
Freehold Buildings	62,500	0	0			
Goodwill and Patent Rights	22,500	0	0			
To Mortgage on Freeholds				15,000	0	0
" William Brown				100,000	0	0
Being sundry Assets acquired by the Company this day (subject to the mortgage stated above) as per resolution of the Board No.—, confirming agreement of this date between the Company and Wm. Brown.						
William Brown	80,000	0	0			
To Debentures Account				50.000	0	0
" Preference Shares Account				10,000	0	0
" Ordinary do. do.				10,000	0	0
" Deferred do. do.				10,000	0	0
Being Debentures Nos. 1 to 500, Preference Shares Nos. 1 to 10,000, Ordinary Shares Nos. 50,001 to 60,000, and Deferred Shares Nos. 100,001 to 110,000, allotted to William Brown this day as fully paid up, in part payment of purchase-money, as per resolution of the Board No.—, confirming agreement of this date between the Company and Wm. Brown duly filed with the Registrar of Joint Stock Companies.						

The payment of the £20,000 cash would be entered on the credit side of the Cash Book and posted to the debit of Wm. Brown's account in the Private Ledger, which is thus balanced off.

As stated in the note to the second Journal entry, the contract for the issue of shares as fully paid must be filed with the Registrar "at or before" the actual allotment of such shares.*

The entries will have have to be passed through the Applications and Allotments Book in the usual way, as shown in the answer to the next question.

Q. 5.—The London Engineering Company, Limited, invited subscriptions for 40,000 preference shares, being part of an issue of 50,000 such shares of £1 each. The subscription list closed on 25th March 1897, when it was found that the following applications had been received, and the deposit of 2s. 6d. per share thereon paid to the company's bankers:—

A. Jones	5,000	shares.
B. Smith	10,000	"
C. Brown	5,000	"
D. Black	2,000	"
E. White	10,000	"
F. Lake	10,000	"
G. Green	10,000	"
	52,000	"

On the 1st April 1897 the Board allotted shares follows:—

A. Jones	5,000	shares.
B. Smith	10,000	"
C. Brown	5,000	"
E. White	10,000	"
F. Lake	5,000	"
G. Green	5,000	"
	40,000	"

You are required to show how the above would appear in the Applications and Allotments Book, and to explain fully what entries would be necessary in the financial books of the company up to the point of sending out allotment letters and letters of regret.

*C.f., page 79.

A. 5.— APPLICATIONS AND ALLOTMENTS

Date of Application	No of Application	Name	Address	Occupation	No. of Shares Applied for	Folio	Amount of Deposit	Proposed Allotment	No. of Letter of Regret
1897							£ s d		
Mar. 25	1	A. Jones ..	..	..	5,000	1	625 0 0	5,000	..
"	2	B. Smith ..	..	..	10,000	"	1,250 0 0	10,000	..
"	3	C. Brown ..	..	..	5,000	"	625 0 0	5,000	..
"	4	D. Black ..	..	..	2,000	"	250 0 0	..	1
"	5	E. White ..	..	..	10,000	"	1,250 0 0	10,000	..
"	6	F. Lake ..	..	..	10,000	"	1,250 0 0	10,000	..
"	7	G. Green ..	..	..	10,000	"	1,250 0 0	..	..
					52,000		6,500 0 0	40,000	
Apr. 1	..	W. Brown (vendor)	..	..	..	..	..	..	..

BOOK (PREFERENCE SHARES).

No. of Allotment	No. of Shares Allotted	Distinctive Numbers of Shares Allotted		Amount Payable on Allotment	Cash Received			Cash Returned			Amount Due	Folio in Share Ledger	No. of Certificate
		From	To		Date	Fo.	Amount	Date	Fo.	Amount			
				£ s d			£ s d	1897		£ s d	£ s d		
1	5,000	1	5,000	4,375 0 0									
2	10,000	5,001	15,000	8,750 0 0									
3	5,000	15,001	20,000	4,375 0 0									
..	..	..	..	..	..	..	..	Apr. 1	1	250 0 0			
4	10,000	20,001	30,000	8,750 0 0									
5	5,000	30,001	35,000	3,750 0 0									
6	5,000	35,001	40,000	3,750 0 0									
	40,000			33,750 0 0			..			250 0 0			
..	10,000												
	50,000												

The cash received from applicants and shareholders would be entered in an inner column on the debit side of the Cash Book, and posted in detail in the proper columns of the Applications and Allotments Book. The totals would be extended to the outer column of the Cash Book, and posted to the credit of "Sundry Shareholders'" Account in the Private Ledger.

Cash returned to applicants is treated similarly, except that, of course, it is credited in the Cash Book and debited in the Private Ledger.

A Journal entry is passed, debiting "Sundry Shareholders'" Account and crediting "Preference Share Capital" Account with £40,000, the full value of the shares allotted for cash.

Q. 6.—The Lost Hill Gold Mining Company, Limited, has a balance of £15,650 to the credit of Profit and Loss Account on the 31st December 1896. On 1st March 1897 it is resolved to appropriate this sum as follows:—

£3,000 to Reserve Fund,

Dividend of 10 per cent. on 5,000 Preference Shares of £10 each,

Dividend of 15 per cent. (free of income tax) on 5,000 Ordinary Shares of £10 each,

And to carry the balance forward.

You are required to show how the following accounts will appear in the Ledger after these resolutions have been given effect to:—

(1) Profit and Loss Appropriation Account.

(2) Dividend Account.

(3) Income Tax Account.

A. 6.—

PROFIT AND LOSS APPROPRIATION ACCOUNT.

Dr.		£ s d	Cr.		£ s d
1897			1896		
March 1	To Reserve Fund	3,000 0 0	Dec. 31	By Profit and Loss Account	15,650 0 0
"	" Dividend on Preference Shares at 10 per cent.	5,000 0 0			
"	" Dividend on Ordinary Shares at 15 per cent.	7,500 0 0			
"	" Balance carried forward	150 0 0			
		£15,650 0 0			£15,650 0 0
			1897		
			March 1	By Balance brought forward	150 0 0

DIVIDEND ACCOUNT.

Dr.		£ s d	Cr.		£ s d
1897			1897		
March 1	To Income Tax Account (8d. in the £ on £5,000)	166 13 4	March 1	By Profit and Loss Appropriation Account: Preference Dividend	5,000 0 0
"	" Cash (Sundry Preference Shareholders) ..	4,833 6 8	"	" Profit and Loss Appropriation Account: Ordinary Dividend	7,500 0 0
"	" Do. (Sundry Ordinary Shareholders) ..	7,500 0 0			
		£12,500 0 0			£12,500 0 0

INCOME TAX ACCOUNT.

Dr.			Cr.		£ s d
			1897		
			March 1	By Dividend Account (Tax on Preference Dividend)	166 13 4

Q. 7.—Explain shortly what entries are necessary in the financial books of a company to give effect to—

(*a*) The redemption of ten debentures of £100 each, being part of an issue of fifty debentures of £100 each issued at 95, on the condition of ten being redeemable every three years at par.

(*b*) The reduction of a company's capital from 100,000 shares of £1 10s. per share paid-up, to 100,000 shares of 5s. each fully paid.

A. 7.—(*a*) The procedure of this case would be as follows:—

During each year it will be necessary to set aside one-third of the amount required to redeem ten debentures of £100 each which have been issued at 95. This would mean an instalment for "Redemption of Debentures" of £316 13s. 4d. per annum, and on account of "Debenture Discount" of £16 13s. 4d. The amount of £333 6s. 8d. will, therefore, be set aside annually. At the end of every third year cheques would be drawn for the debentures which were actually being repaid, the corresponding debits being the Debentures Account, the credit balance of which will be reduced by the amounts paid off so far as the actual cash received in respect of those debentures was concerned, while the payment of 5 per cent. in respect of bonus on redemption will be credited to the "Cost of Debenture Issue" Account.

(*b*) A Journal entry will be required debiting Share Capital Account and crediting Profit and Loss Account with 5s. per share upon 100,000 shares, that is, £25,000; the object being to reduce the amount of paid-up capital standing to the credit of shareholders in the company's books and reducing the debit balance of Profit and Loss Account. In addition to this it will be necessary to make

a note in the Share Ledger to the effect that the shares in question are now fully paid, instead of there being a liability of 10s. per share thereon. The share certificates will have to be called in and similarly endorsed, or new certificates issued, showing that the amount of capital is fully paid, and that the shares are for 5s. each, instead of being nominally £1 each.

Q. 8.—Define the following:—

(*a*) Debenture.

(*b*) Reserve Fund.

(*c*) Dividend.

(*d*) Fixed Assets.

(*e*) Floating Assets.

(*f*) Capital Expenditure.

(*g*) Depreciation.

(*h*) Tabular Bookkeeping.

A. 8.—(*a*) A Debenture is a loan to a limited company, which is usually (but not necessarily) secured by a charge upon the assets of the company.

(*b*) A Reserve Fund is a sum, or an accumulation of sums, set aside out of profits to meet unforeseen contingencies.

(*c*) A Dividend is a sum set aside out of profits, by resolution of the shareholders (or directors), and distributed *pro ratâ* among the shareholders in such manner as they may resolve, subject to the provisions contained in the memorandum and articles of association of the company.

(*d*) Fixed assets are assets acquired for the purpose of placing an undertaking in a position to carry on its trade advantageously.

(*e*) Floating Assets are assets acquired either in the course of carrying on business, or for the purpose of providing the necessary goods in which to carry it on.

(*f*) Capital Expenditure is expenditure incurred which is represented by assets.

(*g*) Depreciation is the amount lost from time to time by reason of the wear and tear of assets, or by their becoming less valuable by effluxion of time, or by reason of their becoming obsolete.

(*h*) Tabular Bookkeeping is a system of bookkeeping in columnar form, whereby the same book can be made use of for the dual purpose of being a book of first record and a Ledger.

APPENDIX B.

Examination Papers set by the Chartered Institute of Secretaries.

INTERMEDIATE EXAMINATION.

TUESDAY, 1st JUNE 1897, 7 to 9 p.m.

Time Allowed, 2 hours.

BOOKKEEPING AND ACCOUNTS.

1. What is Bookkeeping? And what are the main objects of every system of Bookkeeping?

2. Explain the exact difference between Double Entry and Single Entry, and state their respective advantages.

3. What is the difference between a Journal and a Ledger? How many different classes of accounts are there?

4. What is a Debit Balance? What would such a balance mean in connection with each of the following accounts:—

(*a*) Cash.
(*b*) Bank.
(*c*) Capital.
(*d*) Trade Expenses.
(*e*) Jas. Robinson.
(*f*) Office Furniture.

5. What account shows the net profit, and how is the net profit dealt with when it has been ascertained?

6. What is the difference between a Trial Balance and a Balance Sheet? Can either have a balance, and, if so, what does it imply?

7. Prepare a Profit and Loss Account and Balance Sheet from the following Trial Balance of the books of Henry James for the year ended 30th April 1897:—

TRIAL BALANCE, 31st December 1896.

	Dr. £	s	d	*Cr.* £	s	d
Capital				4,500	0	0
Drawings	250	0	0			
Bank	1,360	0	0			
Sundry Debtors	2,400	0	0			
Sundry Creditors				2,500	0	0
Suspense Account	45	0	0			
Rent	100	0	0			
Wages and Salaries	450	0	0			
Discounts				100	0	0
Gross Profit				2,150	0	0
General Expenses	205	0	0			
Bad Debts	40	0	0			
Office Furniture	120	0	0			
Stock-in-Trade (30th April 1897)	4,280	0	0			
	£9,250	0	0	£9,250	0	0

8. Show the "Closing Entries" which would be necessary in connection with the preceding question.

9. A. and B. are partners. On 1st January 1896, A. had £4,000 to the credit of his Capital Account, and B. £1,000. They had agreed to share profits and losses equally, after allowing each partner 5 per cent. interest upon the amount of capital standing to his credit at the beginning of each year. During the year 1896 A. drew £600 and B. £500. When the books were balanced on the 31st December 1896,

it was found that (before providing interest on capital) there had been a loss of £2,500. You are required to show the Capital Accounts of A. and B. as on the 1st January 1897.

10. On the 1st June 1897, James Fairtrade has the following assets:—

Sundry Debtors	£3,500	0	0
Stock on hand	1,800	0	0
Cash at Bank	500	0	0
Cash in hand	20	0	0
Bills Receivable	750	0	0

His liabilities are:—

Sundry Creditors	£2,500	0	0
Bills Payable	1,000	0	0

You are required to open a set of books upon a Double Entry system showing the above position of affairs.

INTERMEDIATE EXAMINATION.

WEDNESDAY, 1st DECEMBER 1897, 7 to 9 p.m.

Time Allowed, 2 hours.

BOOKKEEPING AND ACCOUNTS.

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1. What books would a Trading Company require to keep, whose Articles of Association were substantially in accordance with "Table A" of the 1862 Act?

2. If you were appointed Secretary of a Gold Mining Company, what returns would you suggest the local manager should periodically remit, and how would you incorporate them in the Head Office Books?

3. Applications have been received from A. Jones, of 497 High Street, Plymouth, and B. Smith, ot 218 Broad Street, Leeds, for 1,000 shares and 200 shares of £1 each respectively in the Imperial Motor Co., Limited; 2s. 6d. per share having been lodged with the bankers on application. You are required to show the entries in the Applications and Allotments Book for both, Jones's application being accepted and Smith's declined.

4. The Profit and Loss Account of the "A" Company, Limited, for the year ended 30th June last shows a Credit Balance of £13,647 12s. 10d. At the General Meeting, held on 10th August last, it is resolved to—

(1) Declare a dividend of 7 per cent. upon the issue of 100,000 Preference Shares of £1 each.

(2) Transfer one-third of the balance to Reserve Fund.

(3) Declare a dividend of 4½ per cent. (free of income tax) upon the issue of 20,000 Ordinary Shares of £5 each.

(4) Carry forward the balance.

You are required to show, in Journal form, the entries necessary to give effect to these resolutions.

5. The "B" Company, Limited, goes into voluntary liquidation on 30th September 1897. Its assets appear in the books as follows:—

Cost of Properties..	£150,000 0 0
Liquid Assets	12,000 0 0

Its liabilities are £25,000 and its capital (fully paid-up) £200,000. The assets are sold to the "C" Company, Limited, for £100,000, payable in shares of that company of £1 each credited with 16s. 8d. per share paid. Close the books of the "B" Company.

6. Show the opening entries in the books of the "C" Company (*vide* previous question).

7. Prepare Trading Account, Profit and Loss Account, and Balance Sheet of the United Founders Company, Limited, from the following:—

TRIAL BALANCE, 31st August 1897.

	Dr.			*Cr*		
	£	s	d	£	s	d
Share Capital (20,000 shares of £1 each) ..				20,000	0	0
Calls in arrear	1,200	0	0			
Dividend paid 5th April 1897	1,000	0	0			
Bank	5,400	0	0			
Cash	50	0	0			
Sundry Creditors				6,100	0	0
Bills Payable				5,000	0	0
Debentures at 5 % (issued 28th February 1897)				6,000	0	0
Sundry Debtors..	12,500	0	0			
Purchases..	49,800	0	0			
Wages	6,250	0	0			
Salaries	870	0	0			
General Expenses	230	0	0			
Rent, Rates, and Taxes	500	0	0			
Sales				64,000	0	0
Directors' Fees	500	0	0			
Auditors' Fees	100	0	0			
Plant, &c.	23,000	0	0			
Discounts and Interest				250	0	0
Transfer Fees				50	0	0
	£101,400	0	0	£101,400	0	0

The stock on 31st August 1897 was £2,500. Reserve: £625 for Doubtful Debts, £100 for Wages due, £120 for Rent due, £40 for Rates paid in advance, and £1,150 for Depreciation of Plant.

8. Define the following:—

(*a*) Adjustment Account.

(*b*) Double Entry.

(*c*) Subsidiary Books.

(*d*) Statistical Books.

(*e*) Debenture.

(*f*) Nominal Accounts.

9. Explain fully the terms "*Dr.*" and "*Cr.*"

10. A transfer is handed in to you, as Secretary of the "Z" Company, Lim, for 400 shares of £1 each, 15s. paid-up, from H. Brown to T. Robinson. Explain exactly each step that you would have to take, assuming that the Transfer is ultimately passed by the board.

INTERMEDIATE EXAMINATION.

WEDNESDAY, 1st JUNE 1898, 7 to 9 p.m.

Time Allowed, 2 hours.

BOOKKEEPING.

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1. Explain the terms "*Dr.*" and "*Cr.*" and state the exact nature of the items coming under each heading.

2. How many different classes of Ledger Accounts are there? Give an example of each.

3. What account in the Ledger of a company shows the net profit for the year; upon which side does the balance then fall, and how is it ultimately dealt with?

4. What is an account current? Give an example relating to a business with which you are familiar.

5. Give an example of a bill for £105, drawn at three months from the 1st May 1898, by John Jones on Thos. Smith, and accepted by the latter as being payable at the London and County Bank. What stamp does this bill require, and when is it due for payment?

6. What entries would you make in respect of the bill mentioned in the last question—

(*a*) In Jones's books;

(*b*) In Smith's books?

7. Define the term "Capital" as applied—

(*a*) To a limited company.

(*b*) To a private trader.

8. Record the following transactions in the books of James Robinson, merchant, and prepare a Trial Balance proving the accuracy of your work:—

1898		£	s	d
May 2	Received from A., Cash	25	10	0
"	Allowed him Discount		10	0
4	Sold Goods to B.	400	0	0
"	Drew on B. at 10 days for	400	0	0
7	Paid Wages and Expenses	9	0	0
"	Drew for personal use	10	0	0
10	Paid Bill Payable	95	0	0
12	Bought Goods from C.	200	0	0
14	Received Payment of B.'s Bill	400	0	0
18	Paid C. (in settlement)	190	0	0
21	Paid Wages and Expenses	9	0	0
"	Drew for personal use	10	0	0
24	Received from A., Cash	16	0	0

9. Prepare a Balance Sheet and Profit and Loss Account of the Commission Agency Company, Limited, from the following:—

TRIAL BALANCE, 31st March 1898.

	£	s	d	£	s	d
Subscribed Capital				20,000	0	0
Calls in arrear	10	0	0			
Commission Account				5,260	0	0
Profit and Loss Account (Balance 1st October 1897)				320	0	0
Cash	2,461	0	0			
Sundry Debtors	12,718	0	0			
Bills Receivable	6,271	0	0			
Sundry Creditors				9,409	0	0
Expenses Account	3,529	0	0			
Premises	10,000	0	0			
	£34,989	0	0	£34,989	0	0

10. The Spanish-American Trading Co., Limited, having a balance to the credit of Profit and Loss Account of £6,000, decides to dispose of it as follows:—

> Dividend of 8 per cent. on £25,000 Preference Shares.
> Dividend of 10 per cent. on £25,000 Ordinary Shares.
> Transfer of £1,000 to Reserve Fund.
> Balance carried forward to next year.

Show what entries would be necessary to give effect to the above.

11. The New Manufacturing Co., Limited, acquires the business of Brown & Co. for £100,000, payable half in cash and half in shares. The assets taken over are as follows:—

	£	s	d
Freehold Premises	20,000	0	0
Plant and Machinery	12,500	0	0
Stock-in-Trade	24,000	0	0
Book Debts	33,500	0	0
Goodwill	10,000	0	0

The nominal capital of the company is £200,000 in shares of £1 each. In addition to those issued to Brown & Co. as partly paid, 120,000 shares have been issued to the public, upon which on 1st January 1898 15s. per share had been called up and duly paid. The cash consideration was paid to Brown & Co. on 31st December 1897. You are required to prepare the company's Balance Sheet as on 1st January 1898.

12. On 1st January 1898 A. receives from B. the latter's acceptance at three months for £100. On 1st February A. discounts this bill with C., who charges discount at the rate of 10 per cent. per annum. The bill is dishonoured on maturity, but is taken up by A. on the 6th April. Show the entries in A.'s books.

INTERMEDIATE EXAMINATION.

MONDAY, 5th DECEMBER 1898, 7 to 9 p.m.

Time Allowed, 2 hours.

BOOKKEEPING AND ACCOUNTS.

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1. Describe fully how the accuracy of the postings of, say, the Sold Ledger, may be tested without balancing any of the other Ledgers.

2. Give an illustration of a good form of Petty Cash Book, and describe its working.

3. Explain the difference between (*a*) Preference Shares, (*b*) Ordinary Shares (*c*) Deferred Shares, (*d*) Debentures.

4. Give an illustration of a Cash Book having columns for "Cash," "Bank," and "Discounts," and make six specimen entries upon each side, bring down the balance, and append a *pro formâ* "Reconciliation Account," agreeing the bank balance.

5. What is Depreciation, and how would you provide for it (1) in the case of a lease, (2) in the case of machinery?

6. The Consumers' Supply Company, Lim., was formed on 1st October last to take over as a going concern the business of Isaac Moses. The purchase price was fixed at £100,000, made up as follows:—

	£	s	d
Stock	20,000	0	0
Premises	15,000	0	0
Fixtures, &c.	5,000	0	0
Goodwill	60,000	0	0

The agreement was that this was to be paid, as to £40,000 in cash, and the remainder in fully paid ordinary shares of £5 each. The capital of the company was fixed at £120,000, viz.:—12,000 preference shares of £5 each and 12,000 ordinary shares of £5 each. Only the preference shares were offered to the public, and of these only 2,000

shares were applied for and allotted; in due course these were fully paid up. On the 1st November the purchase was completed, Moses agreeing to accept £5,000 in cash and £35,000 in debentures, in place of the £40,000 cash originally stipulated. Show the necessary entries in the company's books.

7. The facts being as stated in the previous question, show the company's Balance Sheet as it would appear after the completion of the purchase.

8. A company having £1,269 10s. to the credit of its Profit and Loss Account declares a dividend of 6 per cent. (less income tax) upon its share capital of £20,000. Show, in Journal form, the necessary entries in the financial books.

9. From the following Trial Balance prepare a Balance Sheet and Profit and Loss Account of the Express Co., Limited, to 30th September last:—

TRIAL BALANCE, 30th September 1898.

	Dr. £	s	d	*Cr.* £	s	d
Capital Subscribed				62,419	0	0
Debtors	42,116	0	0			
Creditors				762	0	0
Bills Payable				1,640	0	0
Cartage Receipts				85,718	0	0
Bank	4,165	0	0			
Cash	127	0	0			
Reserve Fund				5,000	0	0
Premises	25,000	0	0			
Horses, Vans, &c.	12,640	0	0			
Wages	15,862	0	0			
Forage Account	14,018	0	0			
General Expenses	19,420	0	0			
Directors' Fees	2,000	0	0			
Stores in hand	291	0	0			
Consols	5,000	0	0			
Bills Receivable	14,900	0	0			
	£155,539	0	0	£155,539	0	0

Provide 10 per cent. depreciation on horses, vans, &c., and 2½ per cent. depreciation on premises.

10. Give an illustration of what you consider to be a good form of Share Ledger, and enter therein the following particulars :—One hundred shares of £1 each allotted to J. Jones, of 1,001 Gresham Street, E.C., on 1st October last. Amount due on allotment, £50. Call of 5s. per share made 1st November. The amounts received from Jones were £12 10s. on 20th September and £37 10s. on 6th October.

INTERMEDIATE EXAMINATION.

MONDAY, 5th JUNE 1899, 7 to 9 p.m.

Time Allowed, 2 hours.

BOOKKEEPING AND ACCOUNTS.

1. What is Bookkeeping? How many different systems of Bookkeeping are there, and which is the best?

2. What is a Ledger? What information do you expect to find contained therein?

3. Give an example of a Cash Book having columns for both Cash and Bank Transactions, showing six specimen entries upon each side.

4. If the balance at bank, as shown by the Cash Book, does not agree with the balance of the Bank Pass Book, does it necessarily follow that one of the two is wrong? If not, how would you reconcile the difference?

5. Give an example of a Bills Receivable Book. Enter therein the following transactions of A. so far as is necessary for the proper keeping of this book:—

January 17th.—Received from B. four months' bill for £100, dated 4th January, drawn by him upon C., and accepted by the latter, payable at Lloyd's Bank.

February 4th.—Discounted the above at 5 per cent. per annum with own bankers.

6. Show the entries required in A.'s Ledger and Cash Book to give effect to the transactions recorded in the previous question, assuming that the bill is dishonoured at maturity and that 3s. 6d. is paid for noting.

7. What is a Suspense Account? When is it used?

8. The net profit of a company for one year is £40,000. Interest at the rate of 4 per cent. per annum has to be paid on £100,000 Debentures, £10,000 is transferred to Reserve Fund, and the following dividends are declared, viz.:—6 per cent. on £200,000 Preference Shares and 5 per cent. (free of income tax) on £250,000 Ordinary Shares. Show the Appropriation Account, reckoning income tax at 8d. in the £.

9. Arrange the following figures in the form of a Trial Balance: Sundry debtors, £30,500; Sundry creditors, £26,300; Bills receivable, £5,000; ditto (discounted), £1,000; Adventure to Adelaide (profit), £2,400; Lease of premises, £2,800; $\frac{16}{64}$ share in ship "Nero," £16,000; Capital Account, £54,885; Cash, £85; Rent, £1,000; General expenses, £5,000; Drawings, £3,200; Stock, £32,000; Gross profit, £8,500; Bills payable, £3,500.

10. From the figures given in the last question prepare the Balance Sheet of the proprietor James Richards, and his Profit and Loss Account for the period (*i.e.*, for the half-year ended 31st March 1899), making the following adjustments:—

Depreciation of Lease at the rate of 5 per cent. per annum.

Provision for Bad and Doubtful Debts, £500.

INTERMEDIATE AND FINAL EXAMINATIONS.

TUESDAY, 4th JUNE 1901, 2 to 4 p.m.

Time Allowed, two hours.

BOOKKEEPING AND ACCOUNTS.

Candidates for the Intermediate are to answer the 10 *questions marked "I."*

Candidates for the Final are to answer the 10 *questions marked "F."*

No marks will be given for answers to any other questions.

I. 1. What is Bookkeeping?

I. 2. What is meant by "Double Entry"? What are its advantages?

I. 3. What is the difference between a Journal and a Ledger?

I. 4. Write up a Cash Book, recording the following:—

1901		£	s	d
Jan. 1	Balance in hand	29	17	2
2	Received from J. Adams	20	0	0
"	Drew out of Bank	90	0	0
"	Paid Wages	75	0	0
"	Paid Salaries	12	10	0
4	Received from T. Jones	7	17	6
5	Paid into Bank	50	0	0

Rule the account off, and bring the balance down.

I. 5. F. What account shows the net profit, and why? The net profit being ascertained, what is done with it?

I. 6. F. The following is a Trial Balance of the books of Arthur Jenkins, Solicitor. You are required to state exactly what is the meaning of each balance contained therein:—

TRIAL BALANCE, 31st December 1901.

	Dr.			Cr.		
	£	s	d	£	s	d
Office Furniture	197	2	6			
Salaries	1,621	14	2			
Office Expenses	401	0	7			
Sundry Clients	1,926	12	9			
Sundry Creditors				412	16	0
Bank				871	4	10
Cash	59	1	2			
Rent	400	0	0			
Fees				3,516	2	4
Capital (1st January 1900) ..				805	8	0
Investments	1,000	0	0			
	£5,605	11	2	£5,605	11	2

I. 7. F. From the Trial Balance given in the previous question prepare the Balance Sheet and Profit and Loss Account of Mr. Jenkins.

I. 8. F. Give a specimen ruling of a Bills Receivable Book; enter two Bills therein, and show the Ledger Accounts affected by the transaction, assuming one bill to be duly met on maturity, and the other dishonoured.

I. 9. F. On 31st December last A. had the following assets:—

Stock in Trade	£100
Book Debts	216
Bills Receivable	92
Cash	112
Premises	150

His liabilities were :—

Sundry Creditors	£47
Bills Payable	123

B. joined him in partnership, bringing in £500 in cash as his capital.

Show the Balance Sheet of the new firm.

I. 10. F. On 1st February 1901 A. drew on B. at three months for £100, and B. accepted the bill. On 1st March A. discounted the bill with his bankers, who charged him

£1 for the accommodation. On maturity the bill was dishonoured.

Show, in the form of Journal entries, the method of recording these transactions—(*a*) In A.'s books; (*b*) In B.'s books.

I. 11. F. A limited company, having a nominal capital of £100,000, in 10,000 shares of £10 each, of which 5,000 shares have been issued, makes a further call of £1 per share thereon. Show the proper entries in those books and Ledger Accounts that are affected.

I. 12. F. A limited company has £5,349 10s. standing to the credit of its Profit and Loss Account on 31st December 1900; it is resolved to apply this as follows:—

£3,000 towards the redemption of debentures;

A dividend at the rate of 5 per cent. (*less* income tax) on the paid-up capital of £40,000;

To carry forward the balance.

The dividends are paid and the debentures redeemed on 14th April 1901. Show the entries in the Cash Book, ournal, and Private Ledger.

I. 13. F. Give an example of a ruling for a Share Ledger when it is not intended to call up the whole of the capital subscribed.

I. 14. F. From the following Trial Balance prepare the Trading Account, Profit and Loss Account, and Balance Sheet of Messrs. Jones & Smith, Limited:—

TRIAL BALANCE, 31st December 1900.

	Dr.	Cr.
	£	£
Capital Account (7,500 Shares of £1 each) ..		7,500
Bills Payable		432
Reserve for Bad Debts		400
Bills Receivable	732	
Cash at Bank	320	
Stock, 1st January 1900	640	
Interest	32	
Purchases	15,340	
General Expenses	707	
Sales		27,480
Office Expenses	350	
Wages	7,350	
Discounts	270	120
Salaries	463	
Profit and Loss Account		163
Rent, Rates, and Taxes	500	
Debtors	5,325	
Creditors		250
Leasehold Buildings	2,351	
Machinery and Plant	3,349	
Repairs to Machinery and Plant	542	
Interim Dividend paid	1,074	
	£39,345	£39,345

The Stock at the end of the year was valued at £1,324. Provide £500 for estimated further loss by Bad Debts, and write 10 per cent. off Machinery and Plant, and 2½ per cent. off Leasehold Buildings for depreciation.

INTERMEDIATE AND FINAL EXAMINATIONS.

TUESDAY, 3rd DECEMBER 1901, 2 to 4 p.m.

Time Allowed, 2 hours.

BOOKKEEPING AND ACCOUNTS.

Candidates for the Intermediate are to answer the 10 *questions marked "I."*

Candidates for the Final are to answer the 10 *questions marked "F."*

No marks will be given for answers to any other questions.

I. 1. To which "class" of Ledger Accounts do each of the following belong:—(*a*) Cash, (*b*) Discounts, (*c*) Law Life Office? What does a debit balance upon each of these mean?

I. 2. A. starts in business on 1st April 1901 as an auctioneer, with a capital of £300 in cash. During the next six months he receives £1,200 from sundry persons in respect of fees, against accounts rendered by him amounting in all to £1,500. His payments have been £150 for rent, £400 for salaries, £350 for fixtures and furniture, £300 for general expenses. On 30th September 1901 he owed £25 for salaries, and £15 for general expenses. Write up Cash Book and Journal recording the above transactions.

I. 3. From the Cash Book and Journal referred to in the previous question post up the Ledger and prepare a Trial Balance.

I. 4. From the Trial Balance referred to in the previous question prepare Profit and Loss Account and Balance Sheet, first writing off depreciation of fixtures and furniture at 10 per cent. per annum.

I. 5. F. Define (*a*) Double Entry (*b*) the Double Account System.

I. 6. F. A Profit and Loss Account shows a credit balance of £1,000. State what should be done with this balance when closing the books (*a*) in the case of a sole trader; (*b*) in the case of a firm consisting of two equal partners, Jones and Brown; (*c*) in the case of a limited company.

I. 7. F. Describe the system of accounts in use in any undertaking of which you have practical experience, confining your answer to one page of foolscap paper.

I. 8. F. From the following Balance Sheet and Accounts reconstruct the Trial Balance as it would appear before writing off depreciation and bad debts. The drawings have amounted to £500.

BALANCE SHEET, 30th June 1901.

Liabilities.		*Assets.*	
Capital	£2,000	Leasehold Premises ..	£400
Creditors	500	Stock-in-Trade	750
		Book Debts	1,250
		Cash	100
	£2,500		£2,500

TRADING ACCOUNT, for the Year ended 30th June 1901.

Dr. *Cr.*

To Stock, 1/7/00	£600	By Sales	£5,000
" Purchases	3,950	" Stock, 30/6/1	750
" Gross Profit	1,200		
	£5,750		£5,750

PROFIT AND LOSS ACCOUNT, for the Year ended 30th June 1901.

Dr. *Cr.*

To General Expenses ..	£500	By Gross Profit	£1,200
" Bad Debts	50		
" Depreciation of Lease .	40		
" Net Profit	610		
	£1,200		£1,200

I. 9. F. Jenkins and Smith are partners, sharing profits and losses equally after allowing interest on capital at the rate of 5 % per annum. For the year ended 30th October last their Trial Balance was as follows :—

TRIAL BALANCE.

	£ s d	£ s d
Capital : Jenkins		5,000 0 0
Do. Smith		2,900 0 0
Drawings : Jenkins	400 0 0	
Do. Smith	400 0 0	
Bank Overdraft		500 0 0
Stock, 30th October 1900	8,000 0 0	
Purchases	9,000 0 0	
Sales		20,000 0 0
Travelling Expenses	600 0 0	
Rent, Rates, &c.	1,200 0 0	
Trade Expenses	500 0 0	
Discounts	200 0 0	
Machinery and Plant	3,000 0 0	
Wages	7,000 0 0	
Sundry Creditors		6,000 0 0
Sundry Debtors	4,000 0 0	
Cash in hand	100 0 0	
	£34,400 0 0	£34,400 0 0

The stock at the end of the year was £7,000. Write 10 per cent. off machinery and plant; reserve £50 for possible loss by bad debts. Prepare Trading and Profit and Loss Accounts and Balance Sheet.

I. 10. F. Prepare the closing Journal entries in connection with the facts stated in the previous question.

11. F. Give an example of a Cash Book having columns for "Discount," "Cash," and "Bank," showing six entries upon each side.

12. F. The Retail Traders, Limited, has a branch establishment at Brighton. On the 30th June 1901, the following

Trial Balance of the Branch books was forwarded to the Head Office :—

TRIAL BALANCE, 30th June 1901.

	£ s d	£ s d
Head Office Account		2,000 0 0
Remittance Account	1,000 0 0	
Debtors	1,200 0 0	
Creditors		200 0 0
Stock, 1st January 1901	2,500 0 0	
Purchases	6,000 0 0	
Sales		10,000 0 0
Trade Expenses	1,300 0 0	
Bank	480 0 0	
Cash	20 0 0	
Bills Payable		300 0 0
	£12,500 0 0	£12,500 0 0

Stock on 30th June 1901, £1,800.

In the Head Office books the Branch Account appeared as follows :—

Dr. BRIGHTON BRANCH ACCOUNT. *Cr.*

1901		£ s d	1901		£ s d
Jan. 1	To Balance ..	2,000 0 0	April 2	By Cash ..	500 0 0
			June 20	" " ..	500 0 0

You are required to show the Journal entries necessary to incorporate the Branch transactions in the Head Office books, and show the "Brighton Branch Account" therein completed and balanced off.

13. F. Give a ruling for a Share Ledger, suitable in cases where the whole of the capital is not called up at once.

14. F. A company, having a balance of £10,000 available for dividend, decides to apply it as follows :—

Reserve Fund, £2,000.

Dividend of 6 per cent. upon 4,000 Preference Shares of £10 each.

Dividend of 10 per cent. upon 50,000 Ordinary Shares of £1 each, carrying forward the balance to next year's account.

Show the Accounts in the Private Ledger that are affected.

INTERMEDIATE AND FINAL EXAMINATIONS.

TUESDAY, 3rd JUNE 1902, 2 to 4 p.m.
Time Allowed, 2 hours.

BOOKKEEPING AND ACCOUNTS.

Candidates for the Intermediate are to answer the 10 *questions marked "I."*

Candidates for the Final are to answer the 10 *questions marked "F."*

No marks will be given for answers to any other questions.

I. 1. What are the chief objects of Bookkeeping?

I. 2. How many kinds of Books of Account are there?

I. 3. Show the proper entries in the Ledger to record the following transactions:—

		£		
(a)	Paid J. Jones	17	10	9
(b)	Bought goods from Edwd. Smith & Sons value	22	17	10
(c)	Sold Robinson & Co. goods value	14	1	2
(d)	Paid Wages	7	10	0

I. 4. Define "Capital Account." What entries usually appear in that account, and from what books are they posted?

I. 5. F. What is the difference between a Trial Balance and a Balance Sheet?

I. 6. F. Give a form of Cash Book suitable for a commercial undertaking where all moneys received are not necessarily banked, and where some payments are made in cash. Show the specimen entries on each side, and balance the account.

L

14. F. Taking the figures in the previous question, open the books of The Home Manufactories, Limited, with the aid of the following additional information: Nominal capital, £50,000; 20,000 shares offered to (and applied for by) the public, and paid up 5s. per share on application and 10s. per share on allotment, all duly received.

Show, in Journal form, the opening entries.

Give the Balance Sheet of the company after the completion of the purchase on 1st May 1902.

INTERMEDIATE AND FINAL EXAMINATIONS.

TUESDAY, 9th DECEMBER 1902, 2 to 4 p.m.
Time Allowed, two hours.

BOOKKEEPING AND ACCOUNTS.

Candidates for the Intermediate are to answer the 10 *questions marked* "*I.*"

Candidates for the Final are to answer the 10 *questions marked* "*F.*"

No marks will be given for answers to any other questions.

I. 1. How many classes of Ledger Accounts are there? Give an example of each.

I. 2. In a set of books kept by Double Entry what account shows the net profit (or loss), and why?

I. 3. What is the exact difference between Double Entry and Single Entry?

I. 4. What is meant by the signs "Dr." and "Cr."?

I. 5. F. Journalise the following transactions:—

(*a*) Sold goods to J. Smith, value £10.
(*b*) Received from H. Jones cheque for £9 15s., in payment of an account for £10, *less* Discount.
(*c*) Wrote off £5 due from E. Webb as a bad debt.
(*d*) Wrote off £20 for depreciation of lease.

I. 6. F. What is the difference between (*a*) Shares, (*b*) Stock, (*c*) Debentures, (*d*) Mortgage.

I. 7. F. Give a good ruling for *one* of the following books:—

(*a*) Share Ledger.
(*b*) Register of Mortgages.
(*c*) Bills Receivable Book.

I. 8. F. What is the difference between an account of Receipts and Payments and a Revenue Account?

I. 9. F. On 1st January 1902 John Brown had the following assets:—

	£	s	d
Cash	500	0	0
Stock-in-Trade..	800	0	0
Book Debts	600	0	0
Furniture, &c.	300	0	0

His liabilities were—

	£	s	d
Trade Creditors	400	0	0

Open the books by double entry, employing a Journal for the purpose.

I. 10. F. During the six months ended 30th June 1902 John Brown (*vide* previous question) transacted business as follows:—

	£	s	d
Sold Goods for Cash	2,000	0	0
Do. on Credit	3,000	0	0
Bought Goods do.	4,000	0	0
Received Cash from Customers ..	3,200	0	0
Paid Trade Creditors..	3,000	0	0
Do. other Expenses..	500	0	0
Owed for do.	100	0	0

His Stock in hand on 30th June 1902 was £1,000.

Prepare Trial Balance.

11. F. From the Trial Balance in answer to the previous question prepare Balance Sheet and Trading and Profit and Loss Accounts, first writing off £20 for bad debts and £15 for depreciation of furniture.

Give an example (without figures) of the form of the published accounts of any undertaking with which you are familiar.

A company declares a dividend of 7 per cent. for the year on its Preference Shares (100,000 of £1 each, fully paid), and a dividend on its Ordinary Shares (200,000 of £1 each, fully paid), which, with the interim dividend of 2s. per share already paid, will amount to 15 per cent. for the year ended 31st March last. How will you record in the books the entries to give effect to this resolution?

12. F. Describe fully the means by which errors in the Trial Balance of a set of books may be localised.

13. F. A company is formed with a nominal capital of £150,000, in shares of £1 each. On the 1st June 1902 100,000 shares were offered to the public, payable:—

2s. 6d. per share on appplication.
7s. 6d. ,, on allotment.
5s. od. ,, one month after allotment.
5s. od. ,, two months ,,

All the shares were subscribed for, and the allotment took place on 5th June. All the instalments were duly paid up on the due dates. On 5th June the company purchased from Messrs. Turner & Co. certain patents for £100,000, payably as to £50,000 in fully-paid shares, which were issued forthwith, and as to the balance in cash by four equal instalments, payable on 15th June, 15th July, 15th August, and 15th September. The preliminary expenses, amounting to £500, were paid on 5th June 1902.

Show the above transactions in Journal, Cash Book, and Ledger.

14. F. Prepare Balance Sheet, Trading Account, and Profit and Loss Account from the following:—

TRIAL BALANCE, 30th June 1902.

Capital		£4,800
Drawings	£1,000	
Fixtures and Fittings	250	
Wages	450	
Bills Receivable	500	
Reserve for Bad Debts		110
Trade Expenses	100	
Stock, 1st January 1902	900	
Purchases	5,000	
Rent	150	
Sales		8,000
Debtors	3,000	
Creditors		1,200
Cash	700	
Discounts	60	
Lease	2,000	
	£14,110	£14,110

The Stock on 30th June 1902 was £500. Increase the Reserve for Bad Debts to £250, write £1,000 off Lease Account, and provide for depreciation of Fixtures and Fittings at the rate of 10 per cent. per annum.

INTERMEDIATE AND FINAL EXAMINATIONS.

MONDAY, 8th JUNE 1903, 2 to 4 p.m.
Time Allowed, 2 hours.

BOOKKEEPING AND ACCOUNTS.

Candidates for the Intermediate are to answer the 10 *questions marked "I."*

Candidates for the Final are to answer the 10 *questions marked "F."*

No marks will be given for answers to any other questions.

I. 1. Explain shortly what you understand by Double Entry.

I. 2. What is a credit balance? Give three examples of accounts with a credit balance, and state the meaning of that balance in each case.

I. 3. What is meant by "closing" a Ledger? When, how, and why is it done?

I. 4. How many different classes of books are there in general use? Name them.

I. 5. F. It is often stated that the Journal is little used in modern systems of Bookkeeping. State how far this statement is true, and what has been substituted for the old-fashioned Journal.

I. 6. F. On the 1st January 1903 William Black has the following assets:—

	£	s	d
Stock on hand	400	0	0
Fixtures	200	0	0
Cash at Bank	500	0	0
" in hand..	20	0	0
Owing by J. Brown	125	0	0
And by Robert Evans	50	0	0

His liabilities are £200 due to John Farmer and £100 on an acceptance due 4th February.

You are required to open the books by double entry, showing the necessary entries in both Journal and Ledger.

I. 7. F. On closing a set of books on the 30th September 1902 you find that telephone rent, amounting to £17, has been paid up to the end of the year, and that £24 was paid for fire insurance at Midsummer. Show the necessary entries to be made in the books in order to arrive at the true profits for the year under review.

I. 8. F. Define the following terms:—

(*a*) Account Current.

(*b*) Bill of Lading.

(*c*) Depreciation.

(*d*) Promissory Note.

I. 9. F. From the following Trial Balance prepare Trading Account, Profit and Loss Account, and Balance Sheet of Messrs. Jones & Smith, who commenced business in partnership on 1st January 1902, agreeing to share profits equally:—

Dr. TRIAL BALANCE, 31st December 1902. *Cr.*

Purchases	£507	Capital Account, Jones	£200
Rent	18	Do. Smith	200
Trade Expenses ..	32	Sales	464
Fixtures	50	Sundry Creditors ..	225
Book Debts	38		
Drawings, Jones ..	120		
Do. Smith ..	120		
Cash at Bank	204		
	£1,089		£1,089

The Stock-in-Trade at the close of the year was valued at £200.

I. 10. F. Give a ruling for *one* of the following books:—

(*a*) Bills Payable Book.

(*b*) Petty Cash Book.

(*c*) Register of Transfers.

11. F. Show, by means of an example, how you would record the accounts relating to a consignment in the books of the consignee.

12. F. Explain fully how you would keep the Head Office Accounts of a company having several branches, so as to provide a check upon the branches and enable complete accounts of the whole undertaking to be extracted from the Head Office books.

13. F. Explain shortly the difference between Capital Expenditure and Revenue Expenditure, giving four examples of each in connection with an undertaking with which you are familiar.

14. F. What do you understand by Tabular Bookkeeping? Give three distinct examples of books kept upon the tabular system, and show the special advantages of the system in each case.

INTERMEDIATE AND FINAL EXAMINATIONS.

TUESDAY, 8th December 1903, 2 to 4 p.m.
Time Allowed, 2 hours.

BOOKKEEPING AND ACCOUNTS.

Candidates for the Intermediate are to answer the 10 *questions marked "I."*

Candidates for the Final are to answer the 10 *questions marked "F."*

No marks will be given for answers to any other questions.

I. 1. State how many different classes of Ledger Accounts there are, and name two accounts typical of each class.

I. 2. State the exact meaning of a credit balance on each of the following accounts:—

(*a*) Discount Account.
(*b*) Capital Account.
(*c*) Reserve Account.

I. 3. State the exact meaning of a debit balance on each of the following accounts:—

(*a*) Calls Account.
(*b*) Bad Debts Account.
(*c*) Patents Account.

I. 4. If, on taking out a Trial Balance, there is a difference in the books, and the cause of such difference remains undiscovered, state under what circumstances you would expect the same difference to recur the next time the books were balanced, and under what circumstances you would expect it not to recur.

I. 5. F. Give a form of ruling for a Cash Book, with columns for Discounts, Cash, and Bank respectively. Make ten typical entries, and balance the book, bringing down a balance of cash in hand and overdraft at bank.

I. 6. F. In a large concern, where several different Ledgers are employed, explain how any errors in balancing may be located to the Ledger in which such errors have occurred.

I. 7. F. The following is the Balance Sheet of A., B., and C., trading in partnership under an agreement that their profits are to be divided as follows: A. one-half; B. one-quarter: C. one-quarter:—

BALANCE SHEET, 30th June 1903.

Capital, A.	£5,000		Goodwill		£4,000
" B.	4,000		Business Premises		2,500
" C.	3,000		Stock-in-Trade		5,000
		£12,000	Sundry Debtors		4,000
Sundry Creditors		5,000	Cash		1,500
		£17,000			£17,000

The Partners decide to write off the Goodwill Account altogether. Explain how this may be done, and give the revised Balance Sheet of the firm after so doing.

I. 8. F. From the following Trial Balance prepare Trading Account, Profit and Loss Account, and Balance Sheet, first writing off £100 for depreciation of lease, and £200 for depreciation of plant. The stock on December 31st 1902 was £800:—

TRIAL BALANCE, 31st December 1902.

	£	s	d	£	s	d
Capital				5,000	0	0
Plant and Machinery	2,000	0	0			
Drawings	500	0	0			
Bills receivable	900	0	0			
Sales				20,000	0	0
Cash	800	0	0			
Creditors				3,000	0	0
Debtors	5,000	0	0			
Purchases	10,000	0	0			
Salaries	500	0	0			
Wages	5,000	0	0			
General Expenses	900	0	0			
Rent	400	0	0			
Stock, 1-1-02	1,000	0	0			
Bad Debts	100	0	0			
Discounts	200	0	0			
Lease	700	0	0			
	£28,000	0	0	£28,000	0	0

I. 9. F. A. and B., who are partners in equal shares, decide to keep their books on double entry from the 1st of January 1903. Upon inquiry they find their position on that date to be as follows: Book Debts, £5,000; Trade Creditors, £2,000; Bills payable, £4,500: Stock-in-Trade, £1,000; Plant and Machinery, £1,200; Freehold Land and Buildings, £2,000; Cash at Bank, £800. Show the Journal entries necessary to open the books by double entry, and post to the proper Ledger Accounts.

I. 10. F. Define "Goodwill," and state shortly how this item may be treated in the books of (*a*) a firm, (*b*) a company.

11. F. What are Cost Accounts? When, and for what purposes are they kept, and how (stated shortly) are they prepared?

12. F. What is the Double Account System, under what circumstances is it compulsory, and in what other cases (if any) do you consider it might be employed with advantage?

13. F. State shortly the different methods in use for providing for depreciation of wasting assets.

14. F. The following is the Balance Sheet of the A. Company, Limited, on the 31st December 1902:—

BALANCE SHEET.

Capital, 70,000 Shares of £2 each ..	.. £140,000		Goodwill	£50,000
Calls unpaid ..	5,000		Premises	20,000
		£135,000	Stock-in-Trade	15,000
Trade Creditors		15,000	Sundry Debtors	30,000
Reserve Fund		5,000	Cash	5,000
			Profit and Loss Account..	35,000
		£155,000		£155,000

The Capital of the Company is reduced to £70,000 in fully-paid shares of £1 each. Show the amended Balance Sheet, giving effect to this reduction of Capital, and show the Journal entries necessary to record the alterations in the books.

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